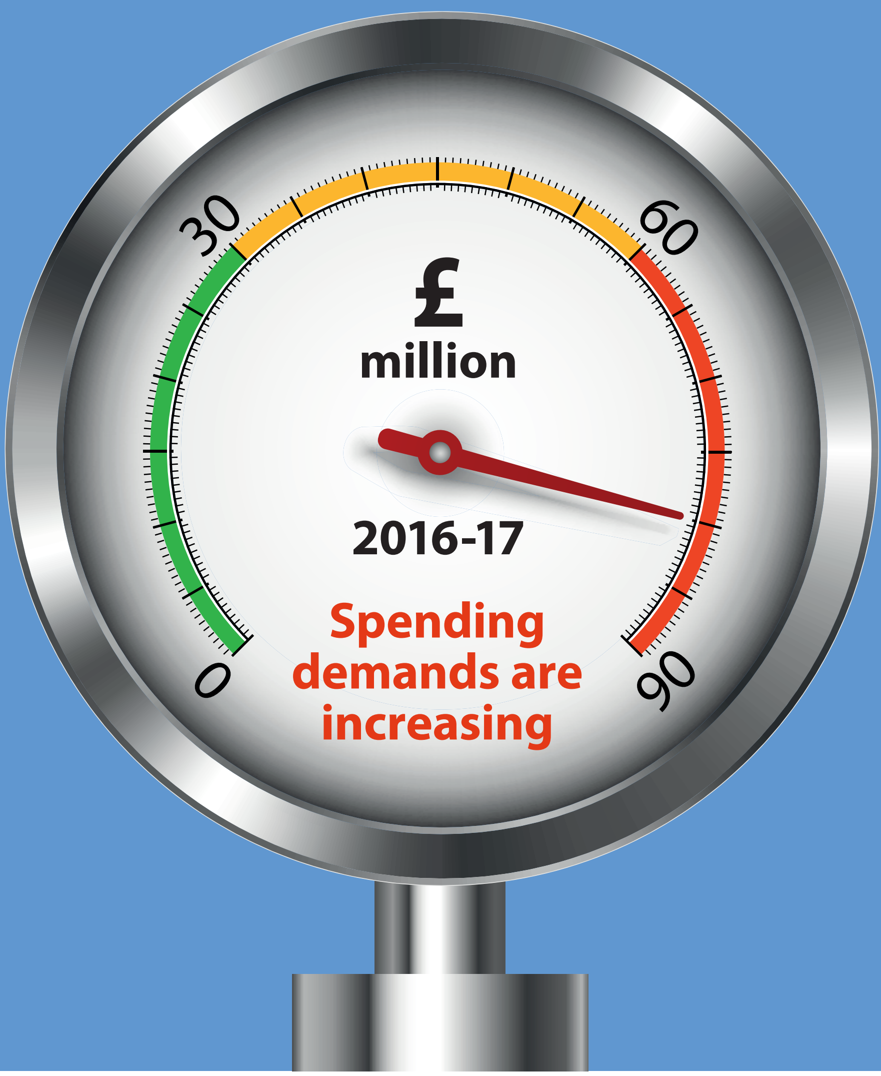
Approved by County Council 11 February 2016

Medium Term Financial Plan

2016-19

Managing Kent's money responsibly



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Leader's Foreword to the Budget and Medium Term Financial Plan

One of the first priorities for the new government following the general election in May was to set out its economic and fiscal strategy for the forthcoming parliament. This included key announcements in both the Summer Budget Statement in July and the Spending Review & Autumn Statement in November. These are based on a vision for a high wage, low tax and low welfare economy. These important policy statements are summarised in this medium term financial plan and set out the national background against which we must fit in the council's own budget strategies.

This backdrop is for continued reductions in the role of the public sector, as the government seeks to reduce public spending to 36.4% of the overall economy by 2020-21 as part of redressing the public finances. This is an inescapable reality and creates a financial necessity that increases in demand for, and the cost of, council services must be sustainable within the money we can raise locally through Council Tax and business rate growth, or from other sources. We can no longer rely on central government funding, principally Revenue Support Grant (RSG), as this is being phased out over the next 4 years. This means we either have to find alternative sources of funding for those services previously supported by RSG, deliver further efficiency savings, or find other ways to reduce the cost of services.

We will continue to manage as much as possible of this reduction through transformation (delivering better outcomes for less money) or efficiencies (delivering similar outcomes for less money). However, given the scale of the challenge which has now emerged following the announcement of the local government finance settlement in December, which is very painful, it is almost inevitable that some of these savings will have to come from front-line services. This means we may have to reduce some services or restrict access only to the most vulnerable and in some cases we may have to question whether we should continue to provide services at all. This fits well with the council's objective to move from being a service provider to a service commissioner.

In line with the national vision we must also find ways to reduce dependence on publicly funded local authority services through prevention and promoting greater self-reliance. This will mean a dramatic change in the way local authority services are viewed by the public. We need to find ways of providing advice and support to help more people help themselves or access services elsewhere, and encourage them to view local authority service delivery (whether provided directly or commissioned) as the last resort for those who can't help themselves or have no other alternative.

This is not necessarily a picture of doom and gloom but a new way of looking at how local government can contribute to improving the lives of our residents and promoting local communities whilst recognising the financial reality. It is imperative that residents and local businesses (as well county council elected members and staff) understand and embrace that resources are finite and that the destiny for the local authority and the services we provide for local communities is very much in our own hands. We must continue to change, adapt and innovate, with the clear aim to deliver better outcomes for people at lower cost to the public purse.

We should recognise that we have a tremendous track record of delivering significant change and substantial financial savings. In the 5 years since 2010 we will have delivered over £430m of savings (£80m to £90m each year) on a net budget of around £1bn. These savings were necessary to deal with the impact of rising costs and demand for council services at the same time as central government funding was reduced and Council Tax was frozen or kept low. They have been achieved through a sustained focus on service efficiency and good business practice including a reduction in the council's workforce (excl. schools) of nearly 25%. These savings have been achieved without significant disruption to council services and with hindsight we may have created a false impression that these savings were easy to make.

The proposed budget for 2016-17 includes a 1.998% Council Tax increase (the maximum permitted without a formal referendum) to help fund the additional spending requirements across the full range of council services. We launched a budget communication and consultation campaign in October to explain why we are proposing to increase council tax and to seek views. The majority of those responding supported this increase, particularly where this is needed to maintain services to support the most vulnerable.

Under the new powers to support adult social care spending, we are also proposing a further 2% increase in Council Tax to meet the growing demand for adult social care services. Adult social care faces a number of challenges including growing demand from an ageing population (the number of residents aged over 75 is forecast to increase by 16% over the next 5 years compared to an increase in the total population of 4.5% over the same period), increased complexity of client's needs, and substantial additional cost pressures. One example of the cost pressures is the introduction of the National Living Wage from April. Private and voluntary sector care providers are likely to need to pass on at least a proportion of the additional cost to their wage bills through increased prices for care packages. This will be essential if we are to sustain a vibrant and good quality market in the county.

Overall this means the band C contribution towards County Council services rising from £968.88 in 2015-16 to £1,007.60 if the budget proposals are approved. We recognise that a 4% increase is well above inflation, but we believe it is justified in order to contribute to additional spending demands (which just in order to stand still are greater than the amount we would raise through this increase). We appreciate that asking for a Council Tax increase while saying we have to reduce council services is a confusing message for residents. We will therefore redouble our efforts to explain to people that this is necessary due to the dilemma we face in meeting the inevitable financial reality I have outlined.

I am confident that we will be able to rise to the financial challenge. We will emerge as an outcome focussed organisation targeting our limited resources where it will make the most difference and improvement to people's everyday lives.

Paul Carter CBE
Leader of Kent County Council

KCC Medium Term Financial Plan 2016-19

CONTENTS

KCC Medium Term Financial Plan

SECTION 1

Executive Summary

Executive Summary

National Context

1.1 The national context is set out in section 2 of the MTFP. Local government continues to be in an era of the greatest financial challenge it has ever faced. The Spending Review and Autumn Statement 2015 sets out the Government's plan to repair public finances over the period of the next Parliament and to deliver a small budget surplus by 2019-20. Local Government and the wider public sector must respond to this and continue to manage spending within the funding available. The spending review identified "flat cash" for local government between 2015-16 and 2019-20, with a dip in 2016-17 followed by a gradual recovery to 2015-16 funding levels.

1.2 Within the flat cash equation is a reduction in central government funding as the core grant to local authorities, Revenue Support Grant (RSG), is phased out. Flat cash is achieved through assumed increases in council tax base (the number of properties paying council tax), council tax rates (Band D charge), additional 2% council tax flexibility through the Social Care Precept, the local share of business rates, improved Better Care Fund for local authorities, reform of New Homes Bonus and rural subsidy. The money from council tax, social care precept, local authority Better Care Fund, etc. is not in addition to flat cash.

1.3 The provisional Local Government Finance Settlement was announced on 17th December. This sets out the funding allocations and spending power calculation for each authority for 2016-17 and indicative allocations for 2017-18 to 2019-20. The settlement included an offer of four year guaranteed funding allocations for those local authorities meeting certain conditions. The settlement also included confirmation of council tax arrangements for 2016-17 (including referendum thresholds and requirements for the additional 2% social care precept), consultation on reform of the New Homes Bonus from 2017-18 onwards, and guidance on new flexibilities over the use of capital receipts.

1.4 The provisional Local Government Finance Settlement included a significant change in the way resources are allocated to individual authorities through RSG. This change came with no prior notification or consultation, and was subject to a short post-announcement consultation running from 17th December to 15th January. The changes resulted in significant and unexpected changes in RSG compared to the amounts most authorities could reasonably predict following the spending review. The change impacted particularly severely on county areas with RSG reductions generally above average, London and Metropolitan boroughs had lesser reductions.

1.5 The final settlement was announced on 8th February and passed by Parliament on 10th February. The final settlement confirmed the provisional allocations other than it also included additional funding via a transitional grant for 2016-17 and 2017-18 to those authorities most adversely affected by the changes to the distribution of RSG in the provisional settlement, additional funding for the most rural authorities in 2016-17 and 2017-18, and reversal of any negative RSG allocations from 2017-18 onwards. The transitional protection only partially mitigated for the adverse effect of the RSG distribution.

1.6 The outlook for county areas looks more encouraging in 2018-19 and 2019-20 with the inclusion of improved Better Care Fund. The budget in those years will still be challenging due to anticipated additional spending demands and the continued phasing out of RSG.

Local Context

1.7 The Council's revenue strategy is set out in section 3 of the MTFP. Revenue budget relates to the day to day spending on services provided by the council. The strategy needs to respond to the national context of fiscal consolidation whilst also making sure that individual budgets are kept up to date to allow for cost and demand changes, impact of legislation, and local decisions on investment and service improvements. The revenue strategy also has to take account of one-off use of reserves to fund base budget activity in the current year as part of managing the transition needed under the national context.

1.7 The revenue strategy addresses the conflicting impact of reductions in central government funding and finding money to cover additional spending demands. These need to be balanced through raising income locally (principally from council tax) and delivering savings to reduce spending to the affordable level within the overall funding available. The 2016-17 revenue equation is shown in table 1 below.

Table 1

Additional spending demands £75.3m	Savings and income £80.8m
Central Govt. Funding Reductions £42.9m	Council tax and business rates £37.4m
Total £118.2m	Total £118.2m

1.8 The revenue strategy includes consultation with the public seeking views on council tax and relative spending priorities. Increasingly this needs to include a communication strategy to explain the magnitude of the challenge and how the council decides to spend public money. The strategy needs to take account of the national and local economic situation and workforce planning.

1.9 KCC has made £433m of revenue savings between 2011-12 and 2015-16 in response to reduced government funding and the requirement to cover additional spending demands. We are planning for the need to continue to make additional savings of a proportionate magnitude for the next two years to 2017-18, which will see an unprecedented period of sustained reductions in local authority spending. The further two years of significant savings arises from the national framework outlined above and are necessary even with the proposed increase in council tax for 2016-17. Without the proposed increase we would not have funding for vital investment in adult social care services and we would need to make even greater cuts in spending on other services.

Capital Strategy

1.10 The capital strategy is set out in section 4 of the MTFP. Capital spending relates to investment in new or enhanced infrastructure. As with revenue, this needs to respond to the national context whilst ensuring infrastructure is maintained to a reasonable and safe standard, and is sufficient to meet the needs of local communities. The capital programme aims to strike a balance between ensuring that we meet our strategic priorities and vision whilst at the same time ensuring schemes represent value for money and maximise value from the authority's asset stock. In particular we want to aim for schemes which help reduce the authority's running costs through invest to save projects, support Kent residents and help with the economic regeneration within the county.

1.11 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovate ways. However, capital is not unlimited or "free money" – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £1m per annum in financing costs (revenue) for 25 years. This is in addition to any on-going maintenance and running costs associated with the project itself. KCC has resolved that no more than 15% of the revenue budget will be spent in servicing debt related to the capital programme. A number of our capital schemes rely on grants from Government departments, some of which we await grant announcements for. We will have to limit capital spending on projects and schemes to the amount raised through external funding as we are unlikely to be able to commit to any additional borrowing.

1.12 The capital programme is presented in directorate format in section 3 of the budget book. Individual schemes within each directorate continue to be identified in detail and separated from rolling programmes. The programme is analysed according to the total cost and phasing for individual projects and programmes, with a separate analysis showing the proposed funding for 2016-17 to 2019-20.

Treasury Strategy

1.13 Treasury management remains a key strategic issue for the Council, not least because of low interest rates and limited investment opportunity. The latest Treasury Management Strategy is included in Section 5 of the MTFP, and was approved by the County Council at the same time as the 2016-17 Budget and 2016-19 MTFP. The strategy includes the impact of changes in banking regulation and the concept of bail in risk which increases the risk associated with unsecured bank deposits. To date we have recovered £51.3m of the monies invested in Icelandic accounts, and we anticipate the final settlement will be £51.6m. This compares to an original risk of £50.5m invested in these deposits.

Risk Strategy

1.14 Effective risk management will continue to be essential in ensuring we can deal with the difficult times ahead. An environment of relentless financial and operational challenges creates greater risk and the council will be required to accept higher levels of risk in order meet desired outcomes. Section 6 of the MTFP sets out the Risk Management Strategy, which includes the key roles and responsibilities to ensure that risk management is successful across the Authority

Council Tax

1.15 Council tax proposals for 2016-17 are set out in section 2 of the budget book. For 2016-17 the County Council has agreed a council tax increase up to the 2% referendum threshold limit. This results in the KCC element of council tax for a Band C property rising from £968.88 to £988.24 (Band D from £1,089.99 to £1,111.77). In addition to this, the County Council has also agreed to increase council tax each year by a further 2% through the Social Care Precept, under new powers to support adult social care spending. For 2016-17 this would result in the KCC element of council tax for a Band C property rising further to £1,007.60 (Band D £1,133.55).

1.16 The majority of those responding to the budget consultation supported a council tax increase up to the referendum threshold of 2% to help cover additional spending demands and protect local services from reductions in central government funding. While funding arrangements for local authorities do not allow us to explicitly identify which services are funded from the council tax increase, we will be acting on feedback from the consultation that residents would like more information about the services KCC provides and the range of services that their council tax pays for.

1.17 The total council tax households will have to pay will be effected by decisions from other authorities in Kent including District Councils, Police Authority, Fire and Rescue and, where applicable, Parish and Town Councils. This will include decisions on the levels of non-mandatory discounts and exemptions. We are anticipating an increase in Council Tax receipts, due to continued growth in the number of Council Tax payers in the County, and an on-going programme to review the application of discounts and exemptions.

Revenue Budget and Medium Term Financial Plan Format

1.18 The revenue budget is presented in a format designed for external purposes, which identifies spend on individual front line services, financing costs, assessment activity and management/support services. The presentation includes a high level summary (section 4), and an A to Z of services (section 5). The A to Z of services identifies the net budget for 2015-16 and summary of spending and income proposed for 2016-17. Information for internal purposes (directorate budgets and delegations to individual managers) is shown in section 8 and appendix A.

1.19 We have made some further improvements to the presentation of the MTFP. In particular the financial appendices now provide:

a) A high level three year budget summary showing the key changes in proposed/estimated funding and spending for each year.

b) A more detailed 2016-17 budget summary which shows the planned changes with a short explanatory narrative

Conclusion

1.20 The Revenue and Capital MTFP set out in this document represent the culmination of nearly a year's work in developing how the council can respond to the unique financial challenge of reduced Government funding while at the same time there is growing demand for council services, particularly in adult social care, and rising cost of goods and services we purchase. We also need to take account of the changed national context which assumes a rebalancing the relative contributions from central government and local taxation.

1.21 Budget assumptions and medium term forecasts are based on a sustained economic prosperity. Should there be further economic shocks this could have a significant impact on future central government funding, local tax receipts and demand on local services. The council maintains an appropriate reserve to help mitigate such shocks and other risks to the council's finances.

KCC Medium Term Financial Plan

SECTION 2

National Financial and Economic Context

National Financial and Economic Context

Introduction

2.1 KCC's financial and service planning takes place within the context of the national economic and public expenditure plans. This section explores that context and identifies the broad national assumptions within which KCC's budget and medium term outline have been framed.

2.2 The Government's economic and fiscal strategy was set out in the July 2015 Summer Budget and is based around 4 key objectives:

- Fixing the public finances and running a budget surplus
- Rewarding work and supporting aspiration
- Backing business and improving productivity
- Ensuring a national economic recovery in all regions of the UK

2.3 These objectives were reinforced and built upon in November via the Spending Review and Autumn Statement 2015. The national and economic context for KCC's 2016-17 budget and 2016-19 Medium Term Financial Plan (MTFP) is based on the Autumn Statement published on 25th November and the supporting Economic and Fiscal Outlook published by the Office for Budget Responsibility (OBR) on the same day. The budget and MTFP are also influenced by the Local Government Finance Settlement which was announced on 17th December and confirmed by Parliament on 10th February. The Local Government Finance Settlement provides detailed grant allocations and spending power assumptions for each local authority for each year between 2015-16 (recalculated) and 2019-20.

2.4 The key fiscal difference between the Summer Budget and the Autumn Statement is that OBR forecast for tax yields are higher than previously estimated and debt interest costs lower. Cumulatively over the period from 2016-17 to 2020-21 these changes in the forecasts deliver an additional net income of £27bn. Over the same period, government changes to tax and spending plans add a cumulative net spending of £18.7bn, resulting in a cumulative reduction in net borrowing of £8.4bn over the period as presented in table 3 (paragraph 2.8 of this section).

Public Spending and Receipts

2.5 The Autumn Statement and Spending Review 2015 includes spending, receipts and net borrowing for "private registered providers" of social housing within the definition of the public sector for the first time. This includes most housing associations as well as some for-profit bodies. This means that the original Summer Budget figures have to be adjusted for this change. The tables below include extracts from tables 4.6, 4.7, 4.8 (public sector receipts) and tables 4.16, 4.17 and 4.18

(public sector spending) from the OBR report. Each entry is shown to the nearest £0.1bn, including totals. This ensures accuracy but does mean the tables may not always sum to the same totals, due to rounding.

2.6 Table 1 shows the adjustments to the Summer Budget for the inclusion of social housing providers.

Table 1	2015-16 £bn	2016-17 £bn	2017-18 £bn	2018-19 £bn	2019-20 £bn	2020-21 £bn
Summer Budget						
Original						
Current Receipts	672.8	711.2	743.7	777.9	814.4	856.1
Total Managed Expenditure	742.3	754.3	768.0	784.3	804.4	844.5
Net Deficit (Surplus)	69.5	43.1	24.3	6.4	-10.0	-11.6
Housing Associations						
Receipts	6.5	6.4	6.6	6.3	6.2	6.5
Expenditure	11.2	9.9	8.8	8.2	7.6	8.1
Revised (incl HA)						
Current Receipts	679.4	717.6	750.3	784.3	820.5	862.6
Total Managed Expenditure	753.5	764.2	776.8	792.5	812.0	852.6
Net Deficit (Surplus)	74.1	46.7	26.5	8.2	-8.5	-10.0

2.7 Table 2 shows the latest OBR forecasts used in the Autumn Statement compared to the revised Summer Budget from Table 1. Highlighted in yellow is the latest forecast for the government's objective of fixing the public finances and running a budget surplus.

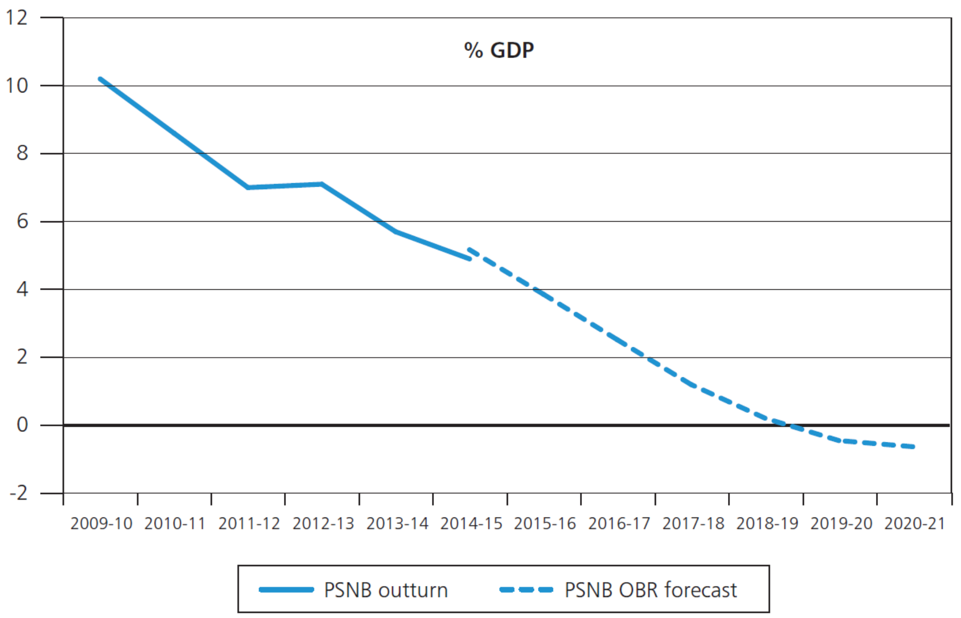
Table 2	2015-16 £bn	2016-17 £bn	2017-18 £bn	2018-19 £bn	2019-20 £bn	2020-21 £bn
Summer Budget						
Current Receipts	679.4	717.6	750.3	784.3	820.5	862.6
Total Managed Expenditure	753.5	764.2	776.8	792.5	812.0	852.6
Net Deficit (Surplus)	74.1	46.7	26.5	8.2	-8.5	-10.0
Autumn Statement						
Current Receipts	682.2	723.4	762.7	796.5	831.1	871.9
Total Managed Expenditure	755.7	773.3	787.5	801.2	821.0	857.2
Net Deficit (Surplus)	73.5	49.9	24.8	4.6	-10.1	-14.7

2.8 Table 3 shows the overall changes between the Summer Budget and Autumn Statement together with the underlying reasons identified by the OBR referred to in paragraph 2.4.

Table 3	2015-16 £bn	2016-17 £bn	2017-18 £bn	2018-19 £bn	2019-20 £bn	2020-21 £bn	5 Year Total 2016-21 £bn
Change in Receipts	2.8	5.8	12.4	12.2	10.6	9.3	50.3
Change in Economic Forecast	2.5	4.1	6.3	5.4	2.8	2.8	21.4
Change in Government Policy	0.3	1.7	6.1	6.8	7.8	6.5	28.9
Change in Spend	2.2	9.1	10.7	8.7	9.0	4.6	42.1
Change in Economic Forecast	2.0	1.2	-1.6	-2.6	-1.0	-1.6	-5.6
Change in Government Policy	0.2	7.9	12.2	11.3	10.0	6.2	47.6
Change in Net Deficit (Surplus)	-0.6	3.2	-1.7	-3.6	-1.6	-4.7	-8.4
Change in Economic Forecast	-0.5	-2.9	-7.9	-8.0	-3.8	-4.4	-27.0
Change in Government Policy	-0.1	6.2	6.1	4.5	2.2	-0.3	18.7

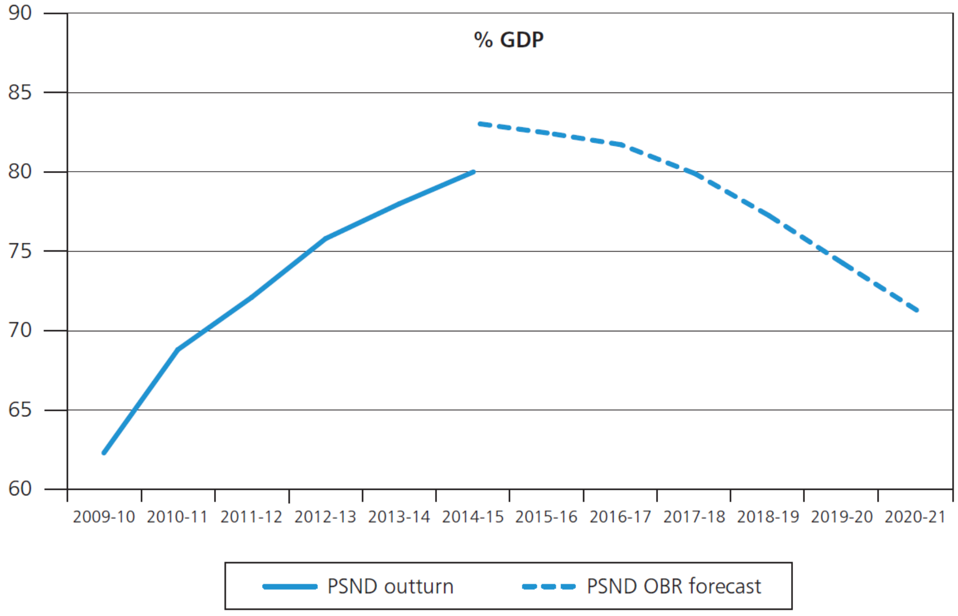
2.9 The reduction in the net deficit, referred to as public sector net borrowing (PSNB), and its impact of the overall total outstanding national debt, were demonstrated graphically in the Autumn Statement report, as reproduced below.

Chart 1.4: Public sector net borrowing (PSNB)



Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations. Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.
Source: Office for National Statistics and Office for Budget Responsibility.

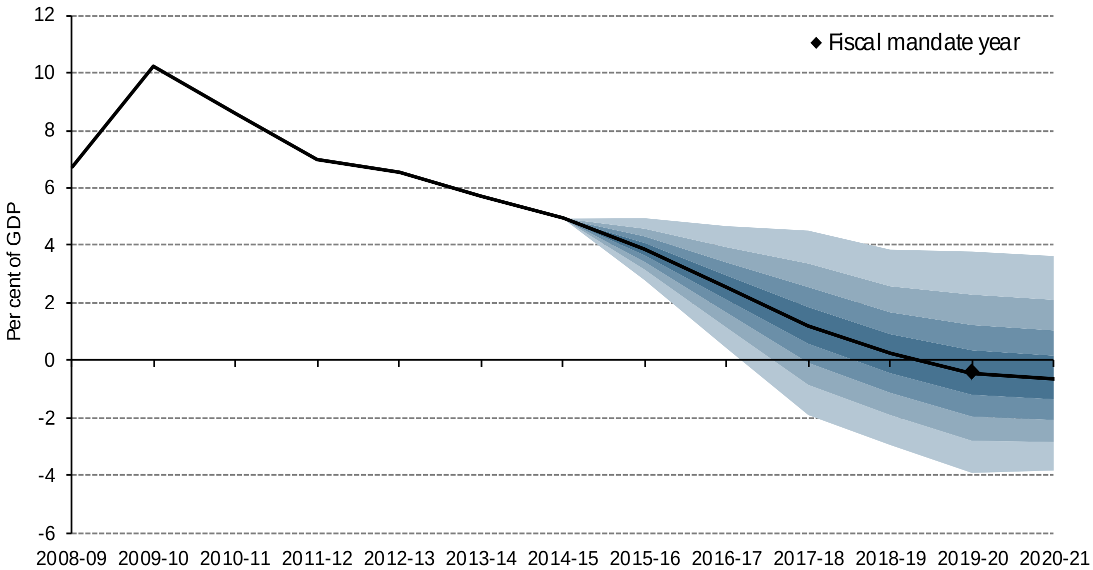
Chart 1.5: Public sector net debt (PSND)



Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations. Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.
Source: Office for National Statistics and Office for Budget Responsibility.

2.10 The OBR recognises there is a degree of uncertainty in any forecast particularly arising from variations in the economic outlook and the levels of receipts and spending. The OBR also recognises there is additional uncertainty due to the magnitude of the fiscal consolidation necessary to achieve the public finances objective. This uncertainty is demonstrated via fan graphs which show the probability of variance via colour shading based on previous experience. The fan graph for PSNB is reproduced below.

Chart 5.3: Public sector net borrowing fan chart



Source: ONS, OBR

2.11 These extracts from the national reports are provided to give a high level picture of the overall context for public spending. Although overall public spending is forecast to rise, the increase is not as much as the growth in the overall economy and as a proportion of Gross Domestic Product (GDP), and therefore in real terms, public spending is forecast to reduce. This was demonstrated in table 1.16 and chart 1.3 of the Autumn Budget statement, reproduced below.

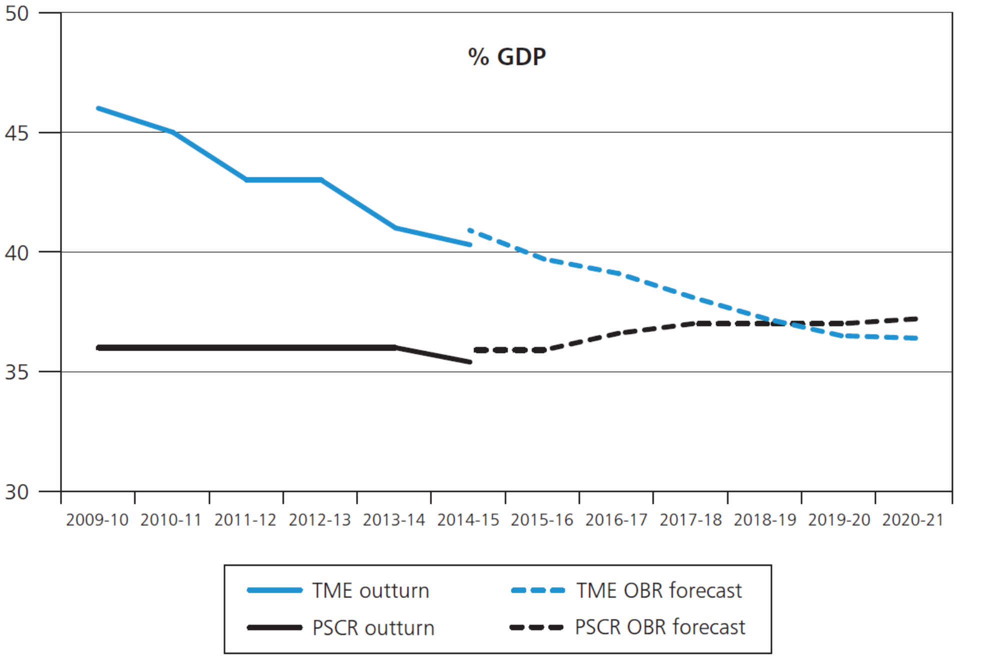
Table 1.6: Total Managed Expenditure[1]

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CURRENT EXPENDITURE						
Resource AME	345.3	353.3	365.9	378.4	391.8	403.9
Resource DEL excluding depreciation[2]	315.1	320.8	322.9	325.2	328.3	341.2
Ring-fenced depreciation	21.9	21.9	21.9	21.9	21.9	21.9
Public Sector Current Expenditure	**682.3**	**696.0**	**710.7**	**725.5**	**742.0**	**767.0**
CAPITAL EXPENDITURE						
Capital AME	31.7	33.4	31.7	30.7	31.7	34.5
Capital DEL[2]	41.7	44.0	45.0	45.0	47.3	55.7
Public Sector Gross Investment	**73.4**	**77.4**	**76.7**	**75.7**	**79.0**	**90.2**
TOTAL MANAGED EXPENDITURE	**755.7**	**773.3**	**787.5**	**801.2**	**821.0**	**857.2**
Total Managed Expenditure (% GDP)	*39.7%*	*39.1%*	*38.1%*	*37.2%*	*36.5%*	*36.4%*

[1] Budgeting totals are shown including the Office for Budget Responsibility (OBR) forecast Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and is the basis on which departmental Spending Review settlements are agreed. The OBR publishes Public Sector Current Expenditure (PSCE) in DEL and AME, and Public Sector Gross Investment (PSGI) in DEL and AME. A reconciliation is published by the OBR.

[2] Resource DEL excluding depreciation and Capital DEL form the envelopes for departmental settlements at the Spending Review.

Chart 1.3: Public sector current receipts (PSCR) and total managed expenditure (TME)

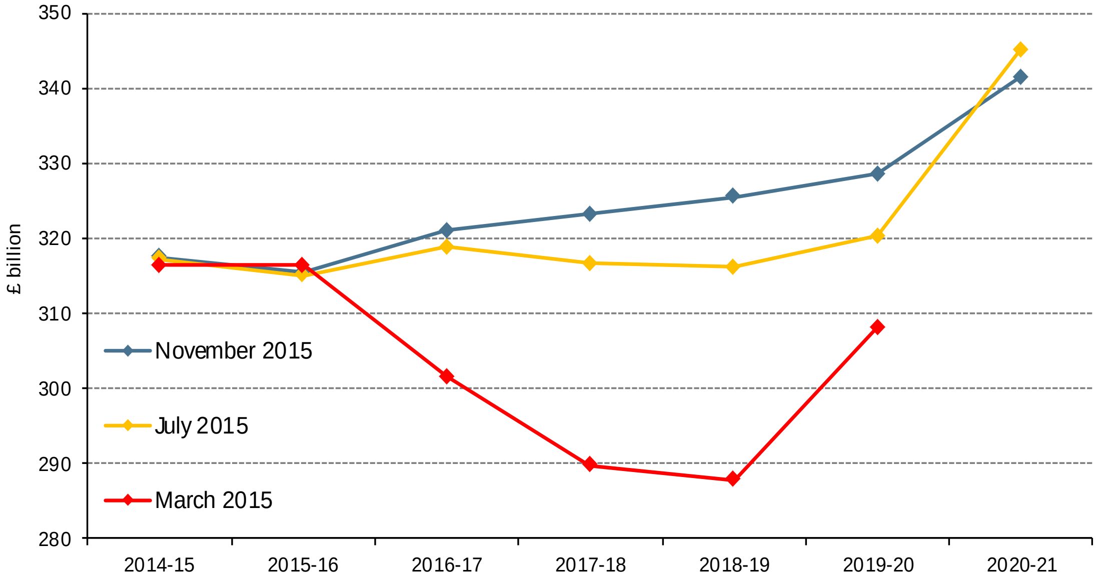


Outturn series (2009-10 to 2014-15) is published ONS data which does not include Housing Associations.
Forecast series (2014-15 to 2020-21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations.
Source: Office for National Statistics and Office for Budget Responsibility.

2.12 Within the overall change in public spending there are some significant trends. Capital infrastructure investment is rising at a faster rate (22.9% by 2020-21) than current expenditure (12.4%), although much of this is back-loaded into 2020-21. Within current expenditure, annually managed expenditure (AME)[1] is growing at a faster rate (17% by 2020-21) than departmental budgets (Resource DEL 8.3%). This increase in Resource DEL is significantly different from the Summer Budget and the previous March budget, as demonstrated in charts 4.3 and 4.6 from the OBR report.

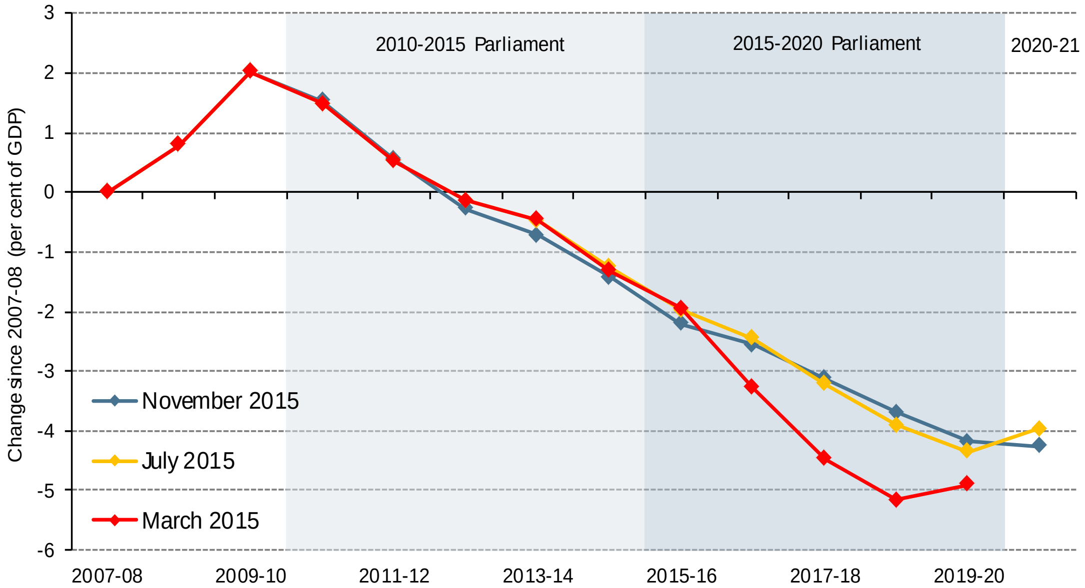
[1] AME includes welfare spending, debt interest and locally financed expenditure (including the portion of local government spending funded by council tax and the local share of business rates), as well as number of other non-departmental budgets

Chart 4.3: Resource DEL spending in cash terms



Source: OBR

Chart 4.6: Resource DEL as a share of GDP in successive Parliaments



Note: RDEL series excludes major historical switches with AME. Details are in the supplementary fiscal tables on our website.
Source: OBR

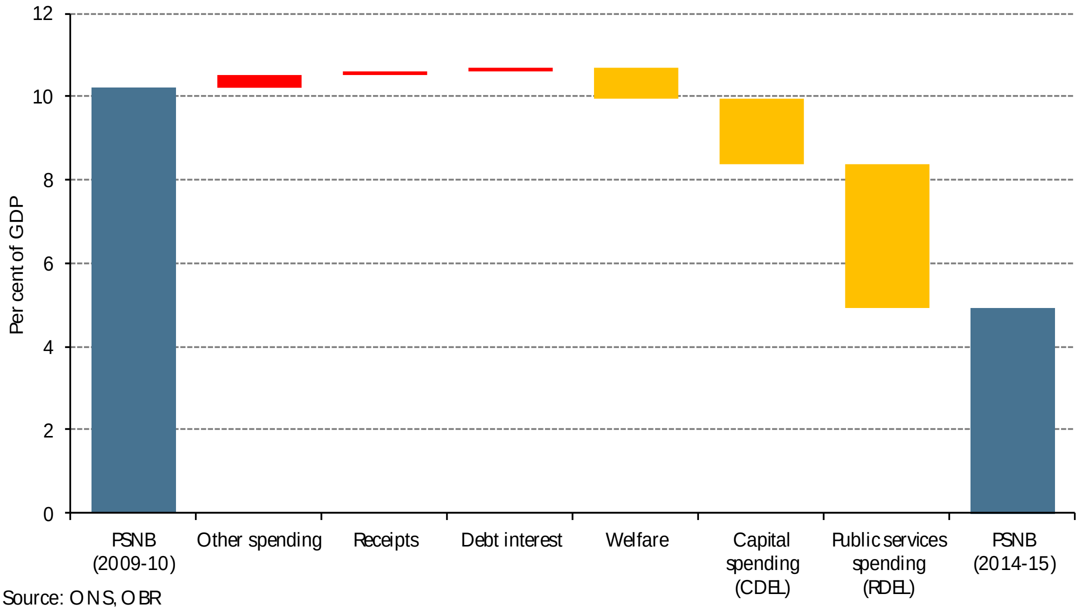
2.13 Within Resource DEL a number of departmental budgets are protected including health, schools, defence, international development and police/security services. We do not have individual departmental spending plans for the summer or March budgets and thus it is impossible to say which departments have benefitted from the increase in Resource DEL.

2.14 The full list of departmental spending plans from the Spending Review 2015 is shown in table 4 (as laid out in table 2.1 of the Spending Review section of the Treasury report). The departmental spending plan for local government is highlighted in green (for further information on local government settlement see paragraphs 2.32 to 2.54 below). The departmental spending plans for protected departments are highlighted in yellow.

Table 4							
	Baseline	Plans					cumulative
Resource DEL excluding depreciation	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	real growth
	£bn	£bn	£bn	£bn	£bn	£bn	%
						to be set at next SR	
Education	53.6	54.4	55.5	56.4	57.1	*	-1.1
Health (including NHS)	111.6	115.6	118.7	121.3	124.1	128.2	3.3
Transport	2.6	2.0	2.1	2.2	1.8	*	-37.0
CLG Communities	1.5	1.4	1.4	1.3	1.2	*	-29.0
CLG Local Government	11.5	9.6	7.4	6.1	5.4	*	-56.0
Business, Innovation and Skills	12.9	13.4	12.3	11.7	11.5	*	-17.0
Home Office	10.3	10.7	10.6	10.6	10.6	*	-4.8
Justice	6.2	6.5	6.3	5.8	5.6	*	-15.0
Law Officers' Departments	0.5	0.5	0.5	0.5	0.5	*	-2.1
Defence	27.2	27.8	28.5	29.2	30.0	31.0	2.3
Foreign and Commonwealth Office	1.0	1.0	1.0	1.0	1.0	*	0.0
International Development	8.5	9.1	9.3	10.7	11.0	*	21.0
Energy and Climate Change	0.9	0.9	1.0	1.0	0.9	*	-16.0
Environment, Food and Rural Affairs	1.5	1.7	1.6	1.5	1.4	*	-15.0
Culture, Media and Sport	1.1	1.2	1.2	1.2	1.1	*	-5.1
Work and Pensions	5.8	6.1	6.3	5.9	5.4	*	-14.0
Scotland	25.9	26.1	26.3	26.3	26.5	*	-5.0
Wales	12.9	13.0	13.1	13.2	13.3	*	-4.5
Northern Ireland	9.7	9.8	9.9	9.9	9.9	*	-5.0
HM Revenue and Customs	3.3	3.5	3.4	3.1	2.9	*	-18.0
HM Treasury	0.2	0.2	0.2	0.1	0.1	*	-24.0
Cabinet Office	0.2	0.3	0.3	0.3	0.2	*	4.4
National Citizen Service	0.1	0.2	0.2	0.3	0.4	*	-
Single Intelligence Account	1.8	1.8	2.0	2.1	2.2	*	17.0
Small and Independent Bodies	1.5	1.5	1.5	1.5	1.5	*	-6.6
Reserves	3.5	3.5	3.4	3.5	4.1	*	
Other Adjustments	0.4					*	
OBR allowance for shortfall	-1.0	-1.0	-1.0	-1.5	-1.5	-1.5	
Total	315.1	320.8	322.9	325.2	328.3	341.2	-

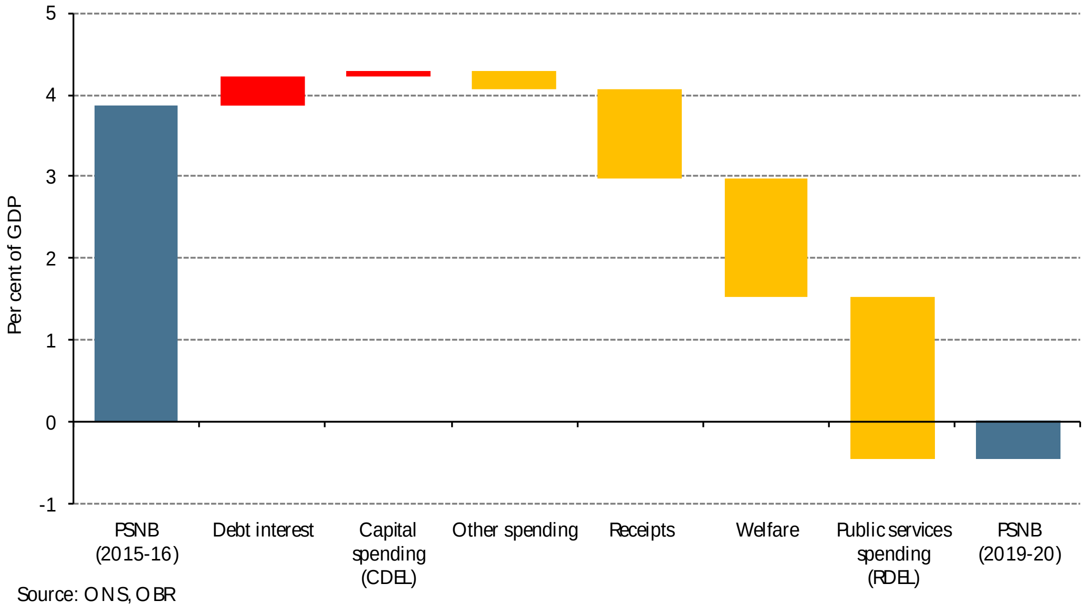
2.15 The OBR fiscal outlook includes some further information to compare the individual components contributing to the fiscal consolidation during the previous parliament and planned over the forthcoming parliament. Charts 4.11 and 4.15 from the OBR report are reproduced below.

Chart 4.11: Sources of deficit reduction from 2009-10 to 2014-15



Source: ONS, OBR

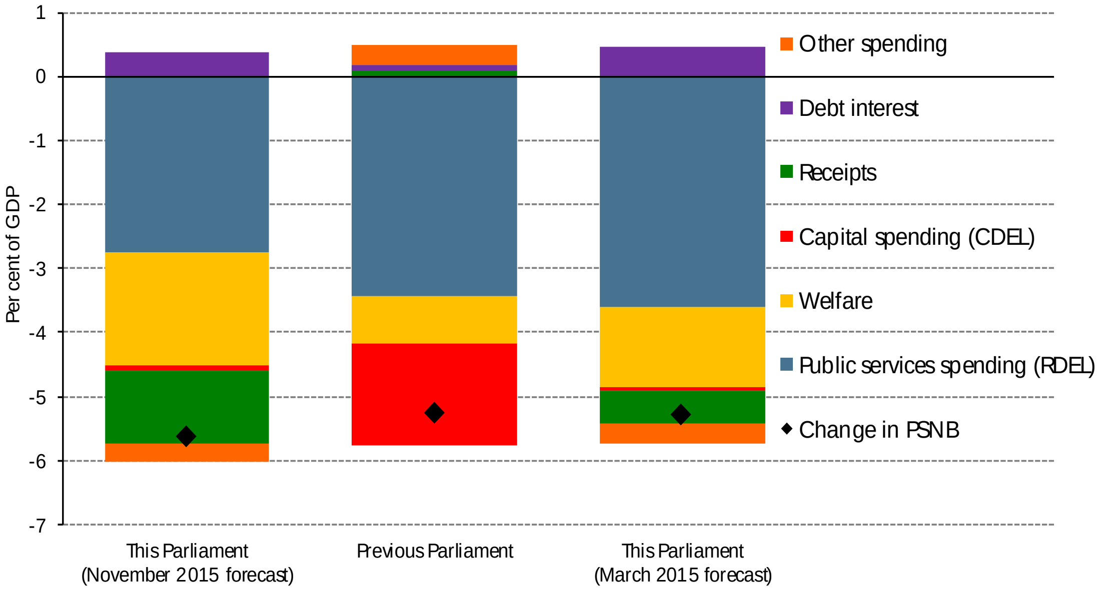
Chart 4.15: Sources of deficit reduction from 2015-16 to 2019-20



Source: ONS, OBR

2.16 The OBR concluded that planned reductions in public services (as a % of GDP) would be around a fifth smaller during the forthcoming parliament and capital would remain almost flat (as a % of GDP). This was compensated by restrictions on welfare spending contributing more than twice as much to improving the budget balance than the previous parliament and tax receipts rising as a share of the overall economy (compared to the flat line during the last parliament). These conclusions were demonstrated in chart 4.20 as reproduced below.

Chart 4.20: Fiscal consolidation over two Parliaments



Source: ONS, OBR

2.17 Paragraphs 2.5 to 2.16 provide a short summary of the key aspects of the public spending and receipt plans as set out in the November 2015 Spending Review and Autumn Statement and the OBR November Economic and Fiscal Outlook. Key tables and graphs have been reproduced. This short summary provides the overall financial backdrop to the 2016-17 budget and 2016-19 MTFP i.e. we can expect to continue to expect real terms reductions in public spending over the parliament, which are likely to be significant for unprotected departments. Full copies of both the Treasury and OBR reports are available as background documents to the budget papers.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

http://budgetresponsibility.org.uk/economic-fiscal-outlook-november-2015/

Other Government Objectives

2.18 The objective to repair public finances continues to have the biggest impact on local authorities. However, in setting the council's budget we must also have regard to the other objectives and how they impact on our financial planning. In particular we need to have regard to welfare reforms and how these may impact on families' ability to pay council tax (including impact on the tax base arising from council tax reduction schemes for those on low incomes) and demand for council services, the introduction of National Living Wage, reforms to create a sustainable health and social care system, housing initiatives, investment in education from childcare to college, introduction of apprenticeship levy, and reform of local authority funding through business rates (including further devolution of responsibilities to local authorities).

2.19 The decision not to reduce working age tax credits in 2016-17 means there will be no adverse impact on council tax yield through additional council tax support discounts. For 2016-17 we have agreed with district councils to extend the current 3 year agreement in relation to Council Tax Reduction Schemes (CTRS) by a further year pending a fuller review for 2017-18. The original 3 year agreement included provision to ensure the transfer from Council Tax Benefit to CTRS was financially neutral (and in particular compensate for the 10% reduction in funding) and to recognise the additional burden on district councils.

2.20 The introduction of the National Living Wage (NLW) will have a significant impact on a range of contracts KCC procures where employers currently pay the Minimum Wage or less than the new NLW of £7.20 an hour. Initially the biggest impact is likely to be on the prices for social care services. In negotiating these prices for 2016-17 we need to have a better understanding of provider's costs and pricing for both state and self-funders, and their capacity to absorb the NLW. The impact on other contracts will emerge as and when these come due for renewal.

2.21 In time the NLW will also have an impact on the staff in the lowest Kent scheme pay ranges (KR2 and KR3) if the aspiration to increase the NLW to 60% of median earnings is achieved. There is no immediate impact as the bottom of KR2 in 2015-16 is already more the NLW of £7.20 an hour. In future years the annual uplift in pay scales will have to ensure the bottom of KR2 is at least equal to the NLW although this is unlikely to be a significant additional cost burden for KCC (it will have a greater impact on schools where more staff are employed on KR2).

2.22 The Autumn Statement included a number of key initiatives to improve health and social services care. As shown in table 4 above the Department for Health, and more specifically the National Health Service will receive year on year increases in the available cash spending reflecting real terms growth. Reproduced below is table 2.8 from the Spending Review showing the overall DoH spending and the amounts identified for NHS within the departmental spend. Public Health funding is to continue to be ring-fenced in 2016-17 and 2017-18 pending the outcome of consultation on the 100% business rate retention (see paragraph 2.28 below).

2.23 The Autumn Statement included a new power for local authorities with social care responsibilities to precept up to 2% extra through Council Tax specifically to meet rising costs of adult social care. This is in addition to the general increase allowed, up to the referendum threshold. The OBR estimates that if all authorities used this power they would be raising an additional £2bn by 2019-20. The statement also included the announcement of an additional £1.5m within the local government settlement for an improved Better Care Fund. The government concludes that together these powers would allow local authorities to increase spending on social care in real terms by the end of the parliament.

Table 2.8: Department of Health

	£ billion					
	Baseline	Plans				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL[1]	111.6	115.6	118.7	121.3	124.1	128.2
Capital DEL	4.8	4.8	4.8	4.8	4.8	4.8
Total DEL	**116.4**	**120.4**	**123.5**	**126.1**	**128.9**	**133.1**

[1] *In this table, Resource DEL excludes depreciation.*

Table 2.9: NHS

	£ billion						
	Outturn	Plans					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NHS TDEL[1]	98.1	101.3	106.8	110.2	112.7	115.8	119.9
Real terms growth rate		1.9%	3.6%	1.3%	0.4%	0.7%	1.4%
Cumulative delivery of £10bn commitment[2]		**2**	**6**	**7**	**8**	**9**	**10**

[1] *Included within Department of Health Total DEL*

[2] *The additional £10 billion real terms funding is calculated with reference to the Summer Budget 2015 deflators, consistent with when the commitment was made.*

2.24 The government reaffirmed its commitment to implementing the Care Act in the Autumn Statement. The reforms enacted from 2015 focus on wellbeing, prevention and delaying the need for social care. In support of this the Spending Review confirms that over £500m will be available by 2019-20 for the Disabled Facilities Grant to fund adaptations in people's homes and prevent the need for them to be taken in care. Furthermore the government remains committed to implementing the further reforms which were deferred from 2016, with additional funding being provided in 2019-20 for local authorities to prepare for these changes.

2.25 The Autumn Statement also reaffirms the government's ambition to improve integration between health and social care in order to improve services and unlock efficiencies. The Spending Review confirms that the existing Better Care Fund will continue with NHS contributions within the real terms increase in funding identified in table 2.8. This is in addition to the improved Better Care Fund within the local government settlement from 2017-18.

2.26 The Autumn Statement included further investment in education, skills and children. The funding for schools through the Dedicated Schools Grant (DSG) continues to be maintained at the same cash amount per pupil and the pupil premium will also be protected at the current rates.

The funding outlook for schools and the local authority role in relation to schools is covered in more depth in paragraphs 2.52 to 2.59 of this section. The Autumn Statement also confirmed additional funding to support the extension of free childcare for all 3 and 4 year olds for working families from 15 hours to 30 hours from September 2017, and additional funding to increase the hourly rate paid to childcare providers from 2017-18.

2.27 The Department for Education will continue to have funds available to help local authorities improve children's social care workforce standards and improve support for vulnerable children. The Autumn Statement also included the introduction of an Apprenticeship levy from April 2017 aimed at doubling the spending on apprenticeships. The levy will be equal to 0.5% of an employer's pay bill (applies to all employers). A £15,000 allowance will effectively mean the levy will only apply to employers with annual pay bill in excess of £3m. This will be a significant cost to this council.

2.28 The Autumn Statement confirmed the earlier policy declaration to reform local government funding in England during the current parliament. DCLG will consult on arrangements to allow authorities to retain 100% of the business rates raised in their local area. The Government estimates this would allow local authorities to retain control of £13bn of local tax revenues rather than funding returned to central government and redistributed in the form of grants. Under the new arrangements authorities will have the power to reduce the rates bills for local businesses effectively abolishing the uniform business rate. A system of tariffs and top-ups will be retained in order to redistribute resources between authorities according to assessed needs.

2.29 In advance of the new arrangements the main grant to local government, Revenue Support Grant (RSG), will be phased out as part of local government's contribution to fiscal consolidation to repair the public finances. The additional £13bn of business rates to be retained by local authorities will come with new responsibilities, and thus will not compensate for the reductions in RSG over the next 4 years.

2.30 The Spending Review also announced the ability for local authorities to spend up to 100% of the receipts from the sale of fixed assets (other than right to buy receipts for housing authorities) on projects designed to deliver revenue reforms. There will be prescribed conditions in order to exercise this power as set out as part of local government finance settlement.

2.31 The Autumn Statement included further proposed reforms to public sector pay and conditions. These include consultation on further action to reduce the cost of exit and redundancy payments and to ensure greater consistency between different parts of the public sector. The government is also committed to look at sickness absence in the public sector and to issue guidance to local authorities on senior staff pay. As announced in the summer budget, public sector pay awards will be limited to an average of 1% each year from 2016-17 to 2019-20.

Local Government Expenditure

2.32 The local government settlement in the Spending Review has been portrayed as slightly better than "flat cash" over the medium term. This means that on average local authorities will have around the same total budget in 2019-20 as they have in 2015-16. The Spending Review included a new power for local authorities with social care responsibilities to precept an additional 2% on council tax to help fund rising spending demands in adult social care. It also included an improved Better Care Fund to be allocated directly to local authorities and a consultation on reformed New Homes Bonus grant. Within this flat cash equation there are a number of significant issues explored in this section. Reproduced below is table 2.17 from the Autumn Statement and Spending Review 2015 publication. It shows the flat cash equation.

Table 2.17: Local Government

	£ billion					
	Baseline	Plans				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
DCLG Local Government DEL[1]	11.5	9.6	7.4	6.1	5.4	*
Locally financed expenditure[2]	28.8	29.0	31.5	33.6	35.1	*
Local government spending[3]	**40.3**	**38.6**	**38.9**	**39.7**	**40.5**	*

[1] *In this table, Resource DEL excludes depreciation.*
[2] *Treasury/DCLG analysis based on data underlying the OBR's Local Authority Current Expenditure (England) forecast.*
[3] *Does not include the impact of business rate reforms, which the government will consult on shortly.*

2.33 The flat cash equation is based on a reduction in central government funding through Resource DEL and an increase in locally financed expenditure through Council Tax and local share of business rates. The reduction in Resource DEL is anticipated to come from phasing out RSG in advance of the new 100% business rate retention. The flat cash equation includes a dip in overall spending in 2016-17 followed by a recovery over the following 3 years.

2.34 The Local Government DEL includes RSG (which amounted to £9.5bn in 2015-16), New Homes Bonus (NHB) which amounted to £1bn in 2015-16 (with a further £0.25bn in the separate CLG departmental Resource DEL), PFI grants and a number of other grants. The DEL from 2017-18 includes the improved Better Care Fund (BCF) and the proposed changes to NHB (including the transfer to BCF). The individual elements of Resource DEL were not apparent in the Spending Review announcement and would only become clear following the publication of the local government finance settlement in December.

2.35 The locally financed expenditure within the flat cash equation also requires further explanation. It is based on the OBR forecast for Council Tax yields and the local share of business rates. In their forecasts the OBR have assumed Council Tax increases in line with inflation and similar increases in the tax base as in recent years. The locally financed expenditure also assumes authorities with social care responsibilities levy the additional 2% precept each year. This means the new power to raise additional Council Tax is within the flat cash assumption.

2.36 The locally financed expenditure in table 2.17 above does not represent all of the proceeds from Council Tax and the local share of business rates. It is unclear which elements have been excluded or why the amounts are different to the OBR forecasts from their November report.

2.37 The flat cash equation includes a total of £3.5bn extra for social care by 2019-20 (through the additional 2% Council Tax precept and the improved Better Care Fund). Therefore, all the additional money to meet rising pressures in social care is within the flat cash equation and not in addition to it. Each authority's social care spending demands are likely to vary and could be more (or less) than their share of this funding within the flat cash equation. Furthermore, authorities will have other spending demands and will need to respond to the reductions in RSG. It should also be noted that the current reporting requirements could prevent many councils from actually levying the additional 2% towards social care spending.

Local Government Provisional Financial Settlement

2.38 The provisional local government finance settlement for 2016-17 was announced on 17th December. The settlement provides provisional grant allocations for individual local authorities for 2016-17 and indicative figures for the following 3 years. The grant announcement sets out the Settlement Funding Assessment (SFA) for each authority comprising of RSG and business rate baseline and tariff/top-up. The provisional allocations (which were subject to consultation which closed on 15th January) include a change in the distribution methodology for RSG which was not subject to any prior notification or consultation. Changes are also proposed for New Homes Bonus from 2017-18 and these changes were subject to a separate consultation which closed 10th March. The provisional settlement also includes notification of spending power figures which include both grant allocations and estimated Council Tax yields.

2.39 As well as grant allocations and spending power calculations the provisional settlement also includes the principles which determine council tax referendum requirements and the new arrangements to levy an additional 2% to support adult social care spending. The provisional settlement also includes the detailed guidance on the flexible use of capital receipts announced in the Autumn Statement.

2.40 The following adjustments have been made to SFA (and therefore RSG):

- Removal of £15.6m for rural services which will be allocated as a separate enhanced un-ring-fenced grant
- Addition of £115.8m for 2015-16 council tax freeze grants previously separately allocated to those authorities choosing to freeze or reduce council tax in that year
- Addition of all funding for the ongoing implementation of the Care Act 2014 (other than elements within the existing Better Care Fund and funding for social care in prisons which will continue to be provided as separate grants) previously allocated as separate grants to all upper tier authorities. This includes £119.2m allocated according to the deferred payments methodology and £183.6m according to the relative needs formula for support to carers etc.
- Addition of £10m for 2015-16 Lead Local Flood Authority grants previously separately allocated to all upper tier authorities
- Addition of £2.2m for 2015-16 Efficiency Support Grants previously allocated to individual qualifying authorities
- Addition of £1.9m new funding to all upper tier authorities to reflect new planning responsibilities for sustainable drainage systems (SuDS) on major developments
- Addition of £0.2m new funding for all lower tier authorities in relation to carbon monoxide and fire alarms

2.41 These adjustments and the individual components which make up the national total SFA are shown in table 5.

Table 5	Original 2015-16 Baseline £m	Original 2015-16 RSG £m	Original 2015-16 Total SFA £m	Adjustments £m	Adjusted 2015-16 RSG £m	Adjusted 2015-16 Total SFA £m
Upper-Tier Funding	6,611.7	5,258.0	11,869.8		5,258.0	11,869.8
Lower-tier Funding	1,758.7	1,276.5	3,035.2		1,276.5	3,035.2
Fire & Rescue Funding	514.7	524.0	1,038.7		524.0	1,038.7
Isles of Scilly Funding	1.4	1.8	3.2		1.8	3.2
Council Tax Freeze Compensation Part 1	246.3	342.2	588.4		342.2	588.4
Early Intervention Funding	709.1	726.4	1,435.5		726.4	1,435.5
GLA General Funding	19.0	21.6	40.6		21.6	40.6
GLA Transport Funding	788.0		788.0		0.0	788.0
London Bus Services Operators Grant	46.1		46.1		0.0	46.1
Homelessness Prevention Funding	33.2	45.3	78.5		45.3	78.5
Lead Local Flood Authority Funding	8.7	11.8	20.5		11.8	20.5
Learning Disability and Health Reform Funding	586.4	834.4	1,420.8		834.4	1,420.8
Rural Services Delivery Funding		15.6	15.6	-15.6	0.0	0.0
Council Tax Freeze Compensation Part 2		319.2	319.2		319.2	319.2
Efficiency Support Grant		9.4	9.4		9.4	9.4
Carbon Reduction Credits Energy Efficiency Scheme adjustment		-6.4	-6.4		-6.4	-6.4
Local Welfare Provision		129.6	129.6		129.6	129.6
Council Tax Freeze Compensation 2015-16				115.8	115.8	115.8
Efficiency Support Grant 2015-16				2.2	2.2	2.2
Care Act 2014 - relative needs				183.6	183.6	183.6
Care Act 2014 - deferred payments				119.2	119.2	119.2
Lead Local Flood Authority Grant				10.0	10.0	10.0
Sustainable Drainage Sytems				1.9	1.9	1.9
Carbon Monoxide and Fire Alarms Grant				0.2	0.2	0.2
	11,323.2	9,509.5	20,832.7	417.3	9,926.8	21,249.9

2.42 The individual elements within table 5 have been aggregated into a single figure for the respective tiers of local government as shown in table 6. This aggregation is calculated for each authority based on the splits between functions within the previous funding arrangements. The aggregation means that individual elements of previous funding arrangements are no longer separately identifiable or protected from future reductions in RSG.

Table 6	Aggregated Adjusted 2015-16 Baseline £m	Aggregated Adjusted 2015-16 RSG £m	Aggregated Adjusted 2015-16 Total SFA £m
Upper Tier	8,101.3	7,840.5	15,941.8
Lower Tier	1,831.4	1,466.4	3,297.9
Fire & Rescue	528.0	561.6	1,089.5
Isles of Scilly	1.4	1.9	3.3
London Police	6.9	29.8	36.7
GLA Other	854.2	26.6	880.8
Total	11,323.2	9,926.8	21,249.9

2.43 The aggregated baseline for all types of authority is uplifted each year in line with the index linked increase in the business rate multiplier. For 2016-17 this is 0.833%. This calculation is shown in rows (a) and (b) of table 7. For the following years this uplift is based on estimated RPI each year.

2.44 The RSG calculation is more complex. The 2015-16 Council Tax requirement for each authority is split between the individual tiers using the same split as that used in the 2013-14 formula grant calculation (table 7 row d). This is added to the aggregated adjusted 2015-16 Total SFA as shown in table 6 to determine the total adjusted 2015-16 resources (table 7 row e). The overall total funding available for 2016-17 is predetermined for the individual tiers of local government according to the overall funding available to local government as set out in the Spending Review (table 7 row f), details of how this determination is calculated is included in annex A of Local Government Finance Report. The 2015-16 total adjusted resources (row e) are scaled to the 2016-17 available funding (row f) to derive the scaled adjusted resources (row h). The uplifted baseline (row b) and the council tax requirement (row d) is deducted to determine the 2016-17 RSG (row i). The 2016-17 uplifted baseline (row b) and RSG (row i) are added together to determine the 2016-17 total SFA (row j).

Table 7											
Ref	Derivation			Upper Tier	Lower Tier	Fire & Rescue	Isles of Scilly	London Police	GLA Other	Total
(a)		2015-16 Baseline	£m	8,101.3	1,831.4	528.0	1.4	6.9	854.2	11,323.2
(b)	(a)+0.83%	2016-17 Baseline (uplifted)	£m	8,168.8	1,846.7	532.4	1.4	6.9	861.3	11,417.5
(c)		2015-16 Adjusted RSG	£m	7,840.5	1,466.4	561.6	1.9	29.8	26.6	9,926.8
(d)		2015-16 Council Tax Reqirement	£m	16,606.3	3,561.5	1,201.2	1.4	569.5	96.0	22,035.9
(e)	(a)+(c)+(d)	Total Adjusted 2015-16 Resources	£m	32,548.1	6,859.3	2,290.8	4.7	606.2	976.8	43,285.8
(f)		2016-17 Available Funding	£m	30,474.9	6,354.6	2,214.2	4.7	606.2	975.8	40,630.4
(g)	(f)/(e)	Scaling Factor		0.9363	0.9264	0.9666	0	0	0	0
(h)	(e)x(g)	2015-16 Scaled Adjusted Resources	£m	30,474.9	6,354.6	2,214.2	0.0	0.0	0.0	0.0
(i)	(h)-(b)-(d)	2016-17 RSG	£m	5,699.8	946.5	480.7	1.9	29.7	25.4	7,183.9
(j)	(b) + (i)	2016-17 Total SFA	£m	13,868.6	2,793.2	1,013.0	3.3	36.7	886.7	18,601.5

2.45 The national distribution of the changes in baseline, RSG and overall SFA between the adjusted 2015-16 settlement and provisional 2016-17 settlement are shown in table 8. This demonstrates the effect of including each authority's Council Tax base in RSG calculations.

Table 8	2015-16			2016-17			Annual Change		
	Baseline £m	RSG £m	SFA £m	Baseline £m	RSG £m	SFA £m	Baseline %	RSG %	SFA %
Inner London	999.2	874.8	1,874.0	1,007.5	686.5	1,694.1	0.83%	-21.52%	-9.60%
Outer London	1,007.5	951.9	1,959.4	1,015.9	688.6	1,704.5	0.83%	-27.66%	-13.01%
GLA	980.3	183.2	1,163.5	988.4	168.1	1,156.6	0.83%	-8.24%	-0.60%
Metropolitan Areas	2,932.0	2,665.7	5,597.7	2,956.4	2,042.9	4,999.3	0.83%	-23.36%	-10.69%
Shire Areas	5,402.9	5,249.2	10,652.1	5,447.9	3,595.8	9,043.8	0.83%	-31.50%	-15.10%
Isles of Scilly	1.4	1.9	3.3	1.4	1.9	3.3	0.83%	-0.59%	0.01%
Total	11,323.2	9,926.8	21,249.9	11,417.5	7,183.9	18,601.5	0.83%	-27.63%	-12.46%
Shire Areas									
Counties with Fire	980.5	1,028.7	2,009.2	988.7	688.4	1,677.1	0.83%	-33.08%	-16.53%
Counties without Fire	1,439.8	1,466.2	2,906.0	1,451.8	956.5	2,408.2	0.83%	-34.77%	-17.13%
Unitaries with Fire	194.1	178.7	372.8	195.7	125.9	321.6	0.83%	-29.53%	-13.72%
Unitaries without Fire	2,064.9	1,928.3	3,993.2	2,082.1	1,377.2	3,459.3	0.83%	-28.58%	-13.37%
Districts	520.3	430.8	951.1	524.6	265.2	789.8	0.83%	-38.45%	-16.96%
Fire and Rescue	203.3	216.6	419.9	205.0	182.7	387.7	0.83%	-15.64%	-7.66%

2.46 This process is repeated for 2017-18, 2018-19 and 2019-20 with RSG determined according the scaling approach against total resources available to local authorities from the Spending Review. Table 9 shows the baseline uplifts and scaling factors used in the indicative allocations for these later years. Table 10 shows the resulting SFA allocations for different classes of authority and the cumulative change in central government resources over the 5 year Spending Review period.

Table 9	2016-17	2017-18	2018-19	2019-20
Baseline Uplift	1.008333	1.019668	1.029501	1.031962
Scaling Factors				
Upper Tier	0.936303	0.950065	0.970079	0.970824
Lower Tier	0.926427	0.940116	0.965838	0.960476
Fire and Rescue	0.966604	0.957995	0.981395	0.992267
GLA Other	0.998923	0.998903	0.998971	0.999072

Table 10	2015/16 Adjusted SFA £m	2016/17 SFA £m	2017/18 SFA £m	2018/19 SFA £m	2019/20 SFA £m	5 Year Change
Inner London	1,874.0	1,694.1	1,560.8	1,486.4	1,412.1	-24.6%
Outer London	1,959.4	1,704.5	1,516.0	1,410.4	1,305.6	-33.4%
GLA	1,163.5	1,156.6	1,156.4	1,174.1	1,198.6	3.0%
Metropolitan Areas	5,597.7	4,999.3	4,551.1	4,300.9	4,061.7	-27.4%
Shire Areas	10,652.1	9,043.8	7,834.0	7,161.0	6,518.3	-38.8%
Isles of Scilly	3.3	3.3	3.3	3.3	3.3	0.0%
Total	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7	-31.8%
Shire Areas						
Counties with Fire	2,009.2	1,677.1	1,426.1	1,285.9	1,157.4	-42.4%
Counties without Fire	2,906.0	2,408.2	2,042.9	1,834.9	1,638.2	-43.6%
Unitaries with Fire	372.8	321.6	283.0	261.6	241.2	-35.3%
Unitaries without Fire	3,993.2	3,459.3	3,065.2	2,843.6	2,626.3	-34.2%
Districts	951.1	789.8	668.2	602.9	530.1	-44.3%
Fire and Rescue	419.9	387.7	348.6	332.0	325.2	-22.5%

2.47 The objective of this complicated arrangement is so that RSG is not phased out pro rata to previous RSG allocations but takes account of the total funding available to individual authorities through business rate baseline (including tariffs and top-ups), RSG and Council Tax. There are no floors or ceilings and the result is that some authorities lose all of RSG by 2018-19 or 2019-20 and effectively have a negative RSG, which is compensated by reducing their local share of business rates. In effect this process means RSG changes for individual authorities are closely aligned to the Spending Power calculation, excluding future council tax growth.

2.48 The provisional local government settlement also sets out spending power calculations for each authority based on the impact of RSG/SFA changes outlined above, projected council tax receipts and other grants. Council Tax projections are based on the OBR forecasts in the Spending Review and include assumptions about increases in the tax base and up to the referendum level and the additional power for social care authorities to levy an additional 2% on council tax each year. The Spending Power calculation also includes the assumed changes in New Homes Bonus Grant and the local authority element of Better Care Fund. Reproduced below is the overall England publication of spending power.

2.49 Table 11 shows the overall change in Spending Power for the different classes of authority over the Spending Review period. This presentation includes the impact of the additional 2% social care precept, proposed changes to New Homes Bonus and the improved Better Care Fund with local authority funding as well as the changes to SFA already outlined in this section of the MTFP.

CORE SPENDING POWER

Please select authority

England

Core Spending Power of Local Government;	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7
Council Tax of which;	22,035.9	23,148.3	24,435.5	25,821.3	27,314.2
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*22,035.9*	*22,748.5*	*23,601.8*	*24,513.0*	*25,486.1*
additional revenue from 2% referendum principle for social care	-	*392.8*	*820.9*	*1,289.8*	*1,804.0*
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	-	*6.99*	*12.80*	*18.51*	*24.13*
Improved Better Care Fund	-	-	*105.0*	*825.0*	*1,500.0*
New Homes Bonus and returned funding	1,200.0	*1,485.0*	*1,493.0*	*938.0*	*900.0*
Rural Services Delivery Grant	15.5	*20.0*	*35.0*	*50.0*	*65.0*
Core Spending Power	**44,501.3**	**43,254.8**	**42,690.1**	**43,170.3**	**44,278.9**
Change over the Spending Review period (£ millions)					-222.5
Change over the Spending Review period (% change)					-0.5%

Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding

Table 11	2015-16 Adjusted Spending Power £m	2016-17 Spending Power £m	2017-18 Spending Power £m	2018-19 Spending Power £m	2019-20 Spending Power £m	Change 2015-16 to 2016-17	5 Year Change
Inner London	2,846.6	2,750.7	2,696.1	2,690.4	2,739.5	-3.4%	-3.9%
Outer London	3,969.3	3,857.6	3,808.7	3,847.7	3,948.9	-2.8%	-0.5%
GLA	1,964.2	1,990.1	2,028.4	2,087.2	2,155.8	1.3%	8.9%
Metropolitan Areas	9,595.8	9,233.6	9,060.1	9,190.0	9,403.9	-5.9%	-5.7%
Shire Areas	26,120.7	25,418.0	25,092.0	25,350.0	26,025.8	-14.0%	-11.6%
Isles of Scilly	4.8	4.8	4.9	4.9	5.0	1.2%	5.7%
Total	44,501.3	43,254.8	42,690.1	43,170.3	44,278.9	-2.8%	-0.5%
Shire Areas							
Counties with Fire	5,472.3	5,318.3	5,271.4	5,398.3	5,575.5	-2.8%	1.8%
Counties without Fire	7,880.6	7,644.2	7,577.8	7,799.5	8,077.8	-3.0%	2.4%
Unitaries with Fire	837.3	813.6	801.5	811.0	833.2	-2.8%	-0.5%
Unitaries without Fire	8,383.5	8,129.4	8,013.1	8,098.2	8,305.9	-3.0%	-0.9%
Districts	2,583.3	2,564.3	2,498.6	2,308.2	2,282.2	-0.7%	-13.2%
Fire and Rescue	963.6	948.3	929.6	934.8	951.2	-1.6%	-1.3%

2.50 The New Homes Bonus will roll-out as originally planned for 2016-17 with the final 6th year of housing growth included in local authority allocations. Thereafter it was originally planned that for 2017-18 the original first year's growth for 2011-12 would drop out and the new growth for 2017-18 added in. In future years the same pattern of 6 year rolling adjustments would have continued. The consultation on NHB proposes that the grant should be restructured and in future payments would only cover 4 year's growth rather than 6 years as the preferred option. The consultation also considers whether only 2 or 3 years growth would be more appropriate as well as a number of other options to improve the incentive to approve planning for new housing developments. The consultation also considers options for transitional mechanisms in 2017-18.

2.51 The final aspect of the provisional Local Government Finance Settlement relates to Council Tax. The referendum threshold has been confirmed will continue to be 2% for 2016-17 (or £5 for those authorities with the lowest Council Tax). Authorities with social care responsibilities (county councils, unitary authorities, London boroughs and metropolitan districts) and Police and Crime Commissioners can levy an additional 2% increasing their threshold to 4%. Social care authorities choosing to exercise this new freedom must make a declaration to the secretary of state that the additional amount raised will be used for adult social care (this will be verified in spending returns) and inform tax payers of the additional amount on council tax bills (including additional information about social care spending).

Final Local Government Settlement

2.52 The final settlement was announced on 8th February and approved by Parliament on 10th February. The final settlement included 3 significant enhancements from the provisional settlement (which was otherwise unchanged):

- The allocation of an additional £150m transitional grant for 2016-17 and 2017-18 to those authorities most adversely affected by the changes in RSG distribution
- Increase in the amount allocated for rural services delivery from £20m to £80.5m in 2016-17 and from £35m to £65m in 2017-18
- Removal of negative RSG allocations for some authorities in 2017-18, 2018-19 or 2019-20.

2.53 These changes have been partially funded from reducing the £50m held-back to business rate safety-net protection. At the time of writing it was unclear how the remainder of the impact has been funded. Produced below is a summary of the impact of the additional funding allocated to different tiers in 2016-17 and the impact on the loss of SFA.

Exemplification of Impact of Final Settlement	2015/16 Adjusted SFA	2016/17 SFA	Loss on SFA		Transitional Protection	Rural Services	Revised Loss against SFA (including Transitional & Rural)	
	£m	£m	£m	%	£m	£m	£m	%
Inner London	1,874.0	1,694.1	-180.0	-9.6%	0.0	0.0	-180.0	-9.6%
Outer London	1,959.4	1,704.5	-254.9	-13.0%	13.4	0.0	-241.5	-12.3%
GLA	1,163.5	1,156.6	-6.9	-0.6%	0.0	0.0	-6.9	-0.6%
Metropolitan Districts	5,335.2	4,751.6	-583.7	-10.9%	2.5	0.0	-581.2	-10.9%
Metropolitan Fire	262.5	247.7	-14.7	-5.6%	0.0	0.0	-14.7	-5.6%
Unitary with Fire	372.8	321.6	-51.1	-13.7%	0.3	4.7	-46.2	-12.4%
Unitary without Fire	3,993.2	3,459.3	-533.9	-13.4%	26.3	13.4	-494.1	-12.4%
Shire County with Fire	2,009.2	1,677.1	-332.1	-16.5%	41.9	14.1	-276.1	-13.7%
Shire County without Fire	2,906.0	2,408.2	-497.7	-17.1%	55.2	14.7	-427.8	-14.7%
Shire District	951.1	789.8	-161.3	-17.0%	9.0	12.5	-139.7	-14.7%
Shire/Unitary Fire	419.9	387.7	-32.2	-7.7%	1.4	1.1	-29.7	-7.1%
Scilly	3.3	3.3	0.0	0.0%	0.0	0.0	0.0	0.0%
Total	21,249.9	18,601.5	-2,648.5	-12.5%	150.0	60.5		

2.54 The impact of the removal of negative RSG allocations from 2017-18 onwards is reflected in a revised version of table 10 (below). The impact of the transitional grant, rural services and removal of negative RSG on spending power calculations are shown in revised table 11 (overleaf).

Table 10 (Revised for Final Settlement)	2015/16 Adjusted SFA £m	2016/17 SFA £m	2017/18 SFA £m	2018/19 SFA £m	2019/20 SFA £m	5 Year Change
Inner London	1,874.0	1,694.1	1,560.8	1,486.4	1,412.1	-24.6%
Outer London	1,959.4	1,704.5	1,516.0	1,412.1	1,317.9	-32.7%
GLA	1,163.5	1,156.6	1,156.4	1,174.1	1,198.6	3.0%
Metropolitan Areas	5,597.7	4,999.3	4,551.1	4,300.9	4,061.7	-27.4%
Shire Areas	10,652.1	9,043.8	7,836.3	7,182.1	6,659.0	-37.5%
Isles of Scilly	3.3	3.3	3.3	3.3	3.3	0.0%
Total	21,249.9	18,601.5	16,623.9	15,558.9	14,652.6	-31.0%
Shire Areas						
Counties with Fire	2,009.2	1,677.1	1,426.1	1,285.9	1,183.9	-41.1%
Counties without Fire	2,906.0	2,408.2	2,042.9	1,838.6	1,674.7	-42.4%
Unitaries with Fire	372.8	321.6	283.0	261.6	241.2	-35.3%
Unitaries without Fire	3,993.2	3,459.3	3,065.2	2,847.0	2,647.6	-33.7%
Districts	951.1	789.8	670.4	616.9	586.3	-38.4%
Fire and Rescue	419.9	387.7	348.6	332.0	325.2	-22.5%

Table 11 (Revised for final settlement)	2015-16 Adjusted Spending Power £m	2016-17 Spending Power £m	2017-18 Spending Power £m	2018-19 Spending Power £m	2019-20 Spending Power £m	Change 2015-16 to 2016-17	5 Year Change
Inner London	2,846.6	2,750.6	2,696.0	2,690.4	2,739.5	-3.4%	-3.9%
Outer London	3,969.3	3,870.9	3,821.8	3,849.4	3,961.1	-2.5%	-0.2%
GLA	1,964.2	1,990.1	2,028.4	2,087.2	2,155.8	1.3%	8.9%
Metropolitan Areas	9,595.8	9,236.7	9,063.2	9,190.5	9,404.3	-5.9%	-5.7%
Shire Areas	26,120.7	25,626.5	25,281.8	25,403.0	26,205.3	-9.4%	-5.9%
Isles of Scilly	4.8	4.8	4.9	4.9	5.0	1.2%	5.7%
Total	44,501.3	43,479.5	42,896.2	43,225.3	44,471.0	-2.3%	-0.1%
Shire Areas							
Counties with Fire	5,472.3	5,374.2	5,320.7	5,398.3	5,602.0	-1.8%	2.3%
Counties without Fire	7,880.6	7,714.0	7,640.0	7,803.1	8,114.2	-2.1%	2.9%
Unitaries with Fire	837.3	818.5	804.1	811.0	833.2	-2.3%	-0.5%
Unitaries without Fire	8,383.5	8,168.9	8,045.6	8,101.4	8,327.1	-2.6%	-0.7%
Districts	2,583.3	2,600.1	2,539.4	2,354.3	2,377.7	0.7%	-8.6%
Fire and Rescue	963.6	950.8	931.9	934.8	951.2	-1.3%	-1.3%

Education Funding and Dedicated Schools Grant (DSG)

2.55 The Dedicated Schools Grant (DSG) is funded 100% by government with no funding from local taxation (Council Tax or business rates). The grant is specific and has to be spent on schools and education services (although local authorities are able to provide a top-up from Council Tax or other local sources). New arrangements for the calculation of DSG were introduced in 2013-14, these new arrangements allocated funding in 3 blocks; schools, early years and high needs.

2.56 The schools and early year's blocks are calculated according to an amount per pupil. These amounts are unique for each authority based on historical average spending per pupil. The schools and early year's amounts per pupil are the same as 2015-16, as announced in the summer. The additional funding allocated to the 69 least fairly funded authorities in 2015-16 (Kent was not one of these) has been incorporated into the schools block per pupil for theses authorities. The early years block has separate amounts for 3/4 year olds and 2 year olds.

2.57 The schools and early years blocks allocations are based on the October 2015 pupil numbers. The October 2015 pupil numbers in the Schools Block have been adjusted for the increase in reception aged pupils between October 2014 and January 2015 i.e. a year in arrears. The early years block will be recalculated for any increase in January 2016 numbers, and will be recalculated again based on January 2017 pupil numbers with the final allocation based 5/12 on January 2016 numbers and 7/12 on January 2017.

2.58 The high needs block is based on the 2015-16 high needs allocation adjusted for changes in places agreed for the summer term 2015, change to the residency/location criteria for post 16 and non-maintained special schools, and exceptions/directly funded non maintained special school places. The high needs block for 2016-17 includes the allocation of £92.5m to all authorities (Kent received £2.6m). The high needs block will be adjusted during the year to reflect places funded directly by the Education Funding Agency (EFA) to academies and non-maintained schools and post 16 places funded through the sixth form grant to local authorities.

2.59 The DfE will be consulting about further reform for the allocation of DSG from 2017-18 onwards as it seeks to introduce a fairer national funding formula. This consultation will seek to address the disparity in funding rates per pupil between individual authorities so that funding is transparent and fairly linked to children's needs. The introduction of a fairer national formula will require a transitional period to help manage the implementation.

2.60 The local authority is responsible for determining the formula used to allocate funding to individual schools, although changes to the regulations have significantly restricted the scope for local variations. A Minimum Funding Guarantee (MFG) protects individual schools from losing no more than 1.5% per pupil year on year. The formula is agreed by the local authority following consultation with schools and the Schools' Funding Forum.

2.61 A separate Pupil Premium was introduced in 2011-12. The amounts per pupil for 2016-17 will remain the same as 2015-16 i.e. £1,320 per primary age disadvantaged pupil, £935 per secondary age, £1,900 for looked after children/adopted from care, and £300 for children from military services families.

2.62 The Education Services Grant (ESG) was introduced in 2013-14 and provides funding for local authority central functions in relation to maintained schools on a national per pupil basis. The grant is paid to both local authorities and academies and is recalculated on a quarterly basis to take account of academy transfers and pupil number changes. Significant reductions in ESG were announced in the Spending Review as part of reducing the role of local authorities and removing some statutory duties. The amounts per pupil have been reduced by 11.5% for 2016-17 compared to 2015-16 as a first step towards this reduction. The respective amounts are shown in table 12.

Table 12	2015-16 per pupil	2016-17 per pupil
ESG General Funding Rate for mainstream schools	£87.00	£77.00
ESG General Funding Rate for special schools	£369.75	£327.25
ESG General Funding Rate for PRUs	£326.25	£288.75
ESG Retained Duties Funding Rate	£15.00	£15.00

Other Government Grants and Funding

2.63 As identified in the Spending Review DfE will continue to have a small fund to assist with improvements in children's social care. In previous years we have received a separate grant from DfE towards the national scheme to extend free school travel to disadvantaged families. This grant has not yet been confirmed for 2016-17 although we have included an estimated amount in the budget for 2016-17.

2.64 Asylum grants for 2016-17 have not yet been announced. The weekly amounts for unaccompanied asylum seeking children and those leaving care were increased during 2015-16. In the budget for 2016-17 we have assumed these enhanced rates will continue. Should the rates subsequently change we will need to change spending plans accordingly to manage within the budget although that will prove to be hugely challenging. Any impact will be reflected in budget monitoring during the year.

2.65 Public Health Grant for 2016-17 was announced on 11th February. Overall this showed a £78.3m reduction (2.26%). The spending review stated there would be real terms savings on public health of 3.9% over the 5 years although included no detail. We have included an estimated amount in the budget for 2016-17, which was very close to the final grant announcement.

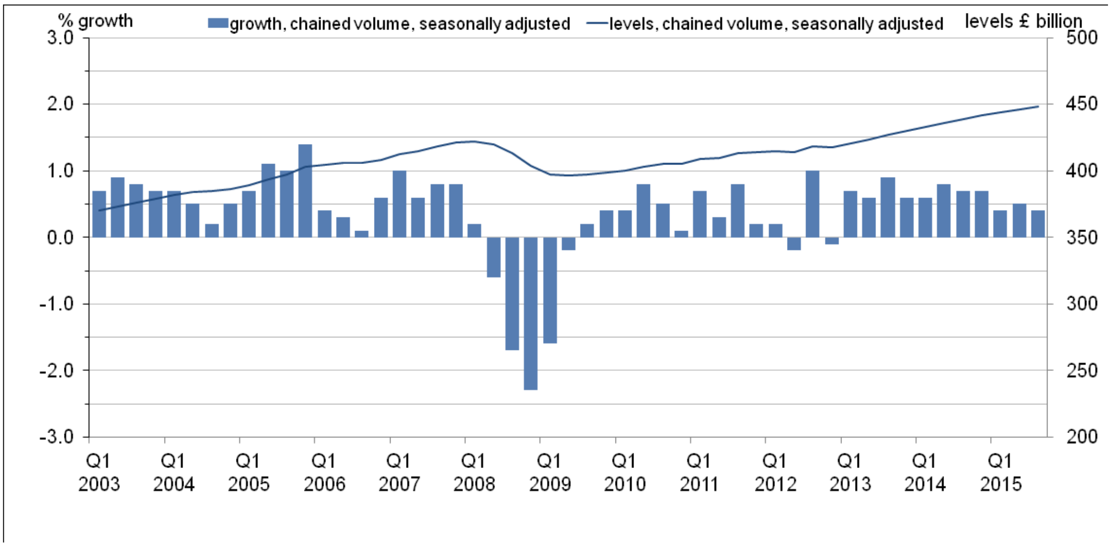
2.66 NHS support for social care has been available through the existing Better Care Fund (BCF) in previous years. At this stage we have assumed that receipts from the fund in 2016-17 will be similar to those in 2015-16 with no need to adjust spending plans. Any variation in receipts from health authorities through BCF will be reported in budget monitoring during the year.

2.67 Individual government departments will continue to provide local authorities with other specific ring-fenced grants for particular purposes. These grants are announced separately from the main local government finance settlement and will be reflected in budget monitoring during the year.

Economic Forecasts

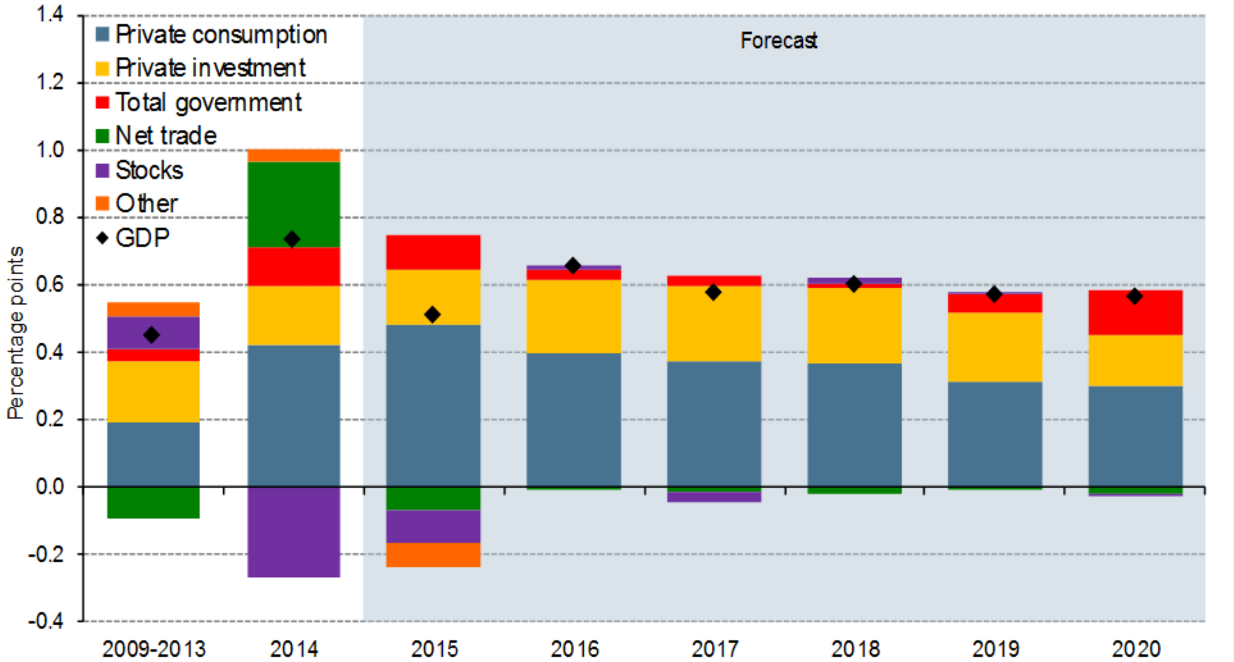
2.68 This section of the MTFP is drawn from the OBR November 2015 Economic and Fiscal Outlook and latest statistical information published by the Office for National Statistics (ONS). It focuses on key economic indicators for growth, inflation, unemployment and earnings. These key indicators are important for the County Council to take into account as they influence both the delivery of national policy objectives e.g. repairing the public finances, and local policy decisions within the budget e.g. provision for pay and prices, charges for services, council tax levels, etc.

2.69 Overall economic activity is measured according to Gross Domestic Product (GDP). GDP grew by 0.4% (revised down from earlier estimate of 0.5%) in the third quarter of 2015. This was the 11th successive quarter recording growth as shown in chart 1 below (extracted from ONS).



2.70 The OBR forecast for future growth is determined by the amount of spare capacity in the economy and the speed with which they expect it to return to productive use. Once short-term issues have fed through they anticipate growth to settle at around 0.6% per quarter (2.3% to 2.5% per annum). Within this forecast they anticipate that private consumption and investment will account for almost all GDP growth while the public sector fiscal consolidation continues. This is represented in chart 3.14 reproduced below.

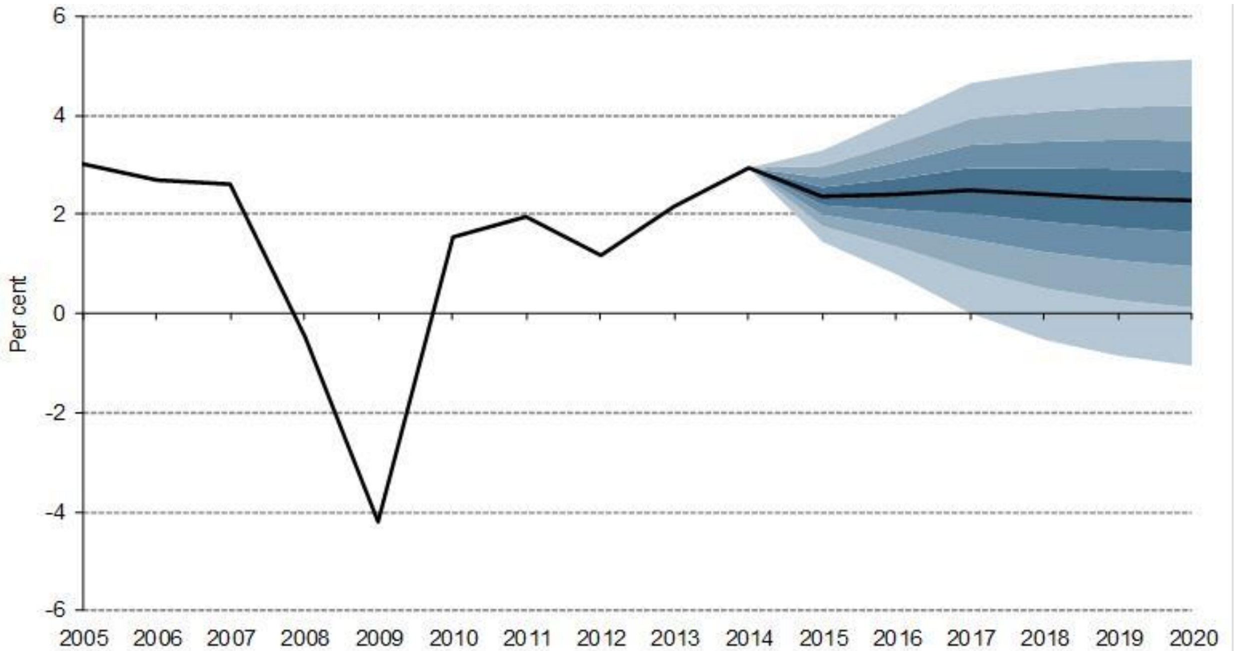
Chart 3.14: Contributions to average quarterly GDP growth



Note: 'Other' category includes the statistical discrepancy and the residual between GDP and the expenditure components prior to the base year (2012).
Source: ONS, OBR

2.71 As with other OBR forecasts, uncertainties are presented via fan graphs which show the potential degrees of variation.

Chart 3.17: Real GDP growth fan chart



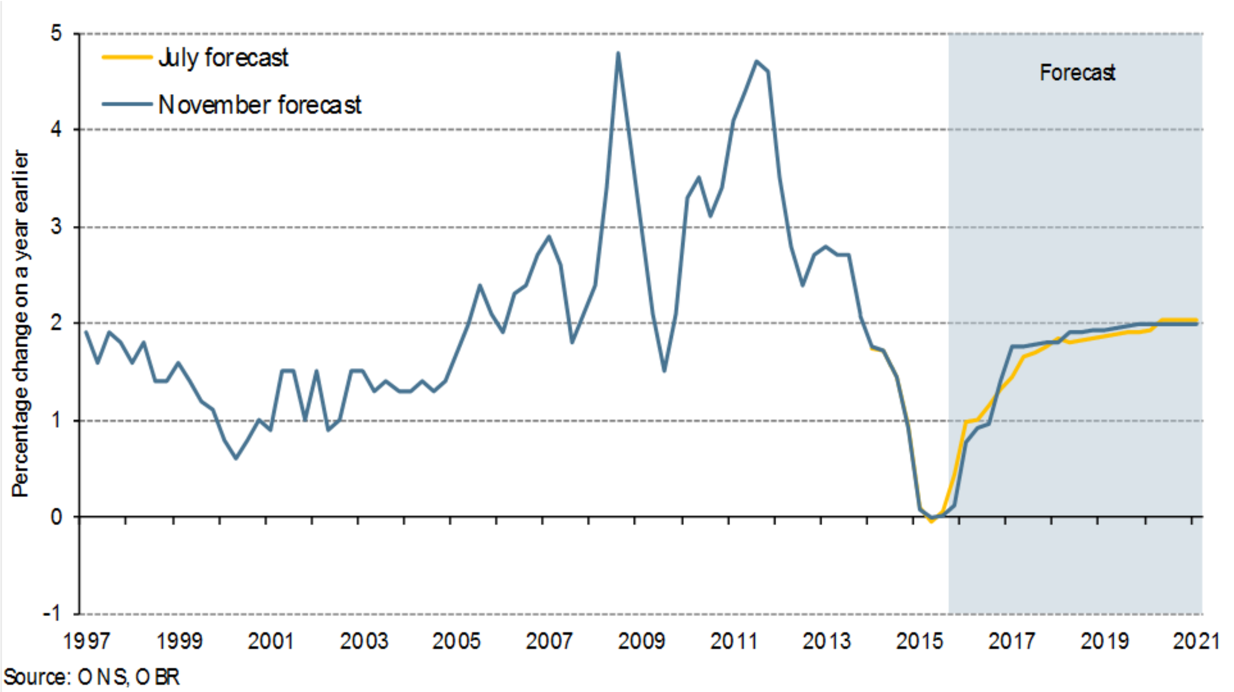
Source: ONS, OBR

2.72 The government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running below the target figure since December 2013.

2.73 CPI in the year to September 2015 showed a reduction of 0.1% and RPI an increase of 0.8% (although RPI is no longer featured in National Statistics). The September indices are important as they are used in the "triple lock" arrangements for state pensions (greater of increase in average earnings/CPI/2.5%). Disability benefits and carers allowances are also increased in line with September CPI. Most other working age benefits are to be frozen for 4 years from 2016 in line with announcements in the summer budget. Business rates are increased in line with September RPI.

2.74 The October indices showed no change from September. The latest November indices showed a small increase with the annual change in CPI at +0.1% and RPI +1.1%. OBR expects inflation to rise slightly during the final months of 2015, partly driven by rises in labour costs and prices for goods and services and partly a reflection of the fall in petrol prices 12 months previously. Inflation is forecast to rise more significantly in the first quarter on 2016, and then less significantly thereafter and not to return to the government's 2% target until the second quarter of 2020. The OBR forecasts are reproduced from chart 3.18 below. This forecast is similar to the bank of England and is factored into the price inflation forecasts in KCC's revenue strategy.

Chart 3.18: CPI inflation



2.75 The unemployment rate continues to fall and stands at 5.2% at the end of the second quarter 2015, down from 6% at the same point last year. The number unemployed as at October 2015 stood at 1.71m (down 0.244m from the same time last year). In total 31.3m people were in employment in October 2015 (73.9% of the population aged 16 to 64), the highest employment rate since comparable records began in 1971.

2.76 The latest release from the Office for National Statistics shows that average weekly earnings (excluding bonuses) for the second quarter 2015 (3 month average) rose by 2.4% compared to the same time last year, before tax and other deductions. Average weekly wage was £462 (excluding bonuses) and £492 (including bonuses). There are some differences between the private and public sectors:

- Average earning in private sector £455 excl. bonuses (up 2.8%)
- Average earning in private sector £491 incl. bonuses (up 3.4%)
- Average earning in public sector £496 excl. bonuses (up 1.2%)
- Average earning in public sector £500 incl. bonuses (up 1.2%)

KCC's assessment of the economic position

2.77 The general state of the economy remains an important consideration in setting the County Council's budget and MTFP. The previous budget and MTFP recognised the progress on economic recovery but highlighted concerns that this recovery had not yet been reflected in increased yields through income tax/corporation tax etc., and progress on eliminating the deficit remained behind target despite substantial reductions in public spending.

2.78 This year's MTFP recognises the further progress on the economic recovery, and that as a result of forecast additional tax yields and lower debt cost the Government has been able to increase spending plans compared to earlier projections and take slightly longer to return to a budget surplus. However, we remain concerned that these forecasts may yet prove to be overly optimistic (based on the latest evidence of the budget deficit in 2015-16 and warnings of the influence of external factors on economic growth in 2016).

2.79 The County Council recognises that inflation has been low throughout much of the preceding year, and that the increase in Council Tax is above inflation. The Cabinet proposed in its budget consultation launched in October 2015 that the County Council's element of Council Tax should be increased up to but not exceeding the referendum threshold (assumed to be 2% pending formal Government decisions) for 2016-17 in order to contribute towards the cost of rising spending demands alongside reductions in central Government funding. The Cabinet accepts that these are exceptional circumstances and that above inflation Council Tax increase for 2016-17 can be justified in such circumstances in order to protect frontline services.

2.80 The County Council recognises that some households have to manage on fixed incomes which do not keep pace with pay growth or inflation. These households will find any Council Tax increase difficult to cope with. We have agreed with each district council in Kent to undertake a review of their Council Tax Reduction Schemes (CTRS) for 2017-18, these schemes provide a discount for those on benefits and low incomes. As part of this review we will ask districts to specifically consider how schemes can be amended to provide additional discounts in future for those on fixed incomes to help to compensate for future Council Tax increases.

2.81 Following the Spending Review announcement and the provisional Local Government Finance Settlement the County Council can levy an additional 2% over and above the referendum threshold towards social care spending subject to certain conditions. The County Council welcomes this additional flexibility. Adult social care budgets have been under severe pressure during the current year as a result of both higher than estimated activity, and higher than expected care costs. Both of these trends look likely to continue for the foreseeable future, particularly in light of the introduction of the National Living Wage from April 2016. As a consequence Cabinet proposes to use this additional power and increase Council Tax up to the revised 4% limit. The increases up to the 2% referendum threshold and the additional social care levy will be separately identifiable, and in the case of the latter this will be linked to specific investments in adult social care.

2.82 In proposing this increase Cabinet Members recognised that there has not been sufficient time to carry out a specific consultation on the additional social care levy. However, Cabinet Members recognise that the majority of respondents to recent consultation (54%) supported a Council Tax increase up to the referendum level. A further 22% of respondents supported a higher increase necessitating a referendum, and 24% supported no increase. Separate independent market research with a sample of residents also showed support for modest Council Tax increases in response to rising spending demands and reduced government funding. Furthermore the recent consultation showed that protecting social care services for the most vulnerable should be the council’s highest priority. Therefore, in light of the existing and forecast significant spending demands in social care, Cabinet is satisfied the additional increase can be justified and would be supported by most Kent residents in the current financial circumstances.

2.83 Despite the low levels of inflation through CPI and RPI the council is facing inflationary pressures on a number of commissioned services. These include contracts with clauses linked to specific inflation indices which are higher than the general CPI/RPI. We also have a number of services where we have a statutory obligation to pay price increases imposed by contractors. We have some contracts which are negotiable. The council has to meet any price increases either from

Council Tax or other reductions in spending as there is no account of any spending increases in allocations from central government (which are reducing in cash terms).

2.84 Generally unemployment in the county is below the national average (1.7% of the population claiming Job Seekers Allowance) compared to 2.2% nationally and 2.1% for England. However, even though unemployment is falling in all districts it is still at or above the England average in 5 districts. The Council is also concerned about high levels of youth unemployment and through our "Kent Jobs for Kent Young People" programme we will continue to look to generate training and employment opportunities in the county.

2.85 The Council recognises the need to tackle the national budget deficit and the imperative for reductions in public spending. We intend to manage these through efficiency savings (doing the same for less) and by transforming the way we provide essential front-line services so that services are still available when people most need them. Through the transformation agenda we are aiming to deliver better outcomes and improved life opportunities for individuals at less cost to public spending. As part of the budget proposals we will continue to use the Council's reserves in order to manage the impact of funding reductions, although we have to recognise this only provides a short term solution and we will need to replace this with long term sustainable savings.

2.86 The Council will continue to put a high priority on stimulating economic growth in the County so that Kent residents and employers are in a position to derive maximum benefit from economic recovery.

KCC Medium Term Financial Plan

SECTION 3

Revenue Strategy

REVENUE STRATEGY

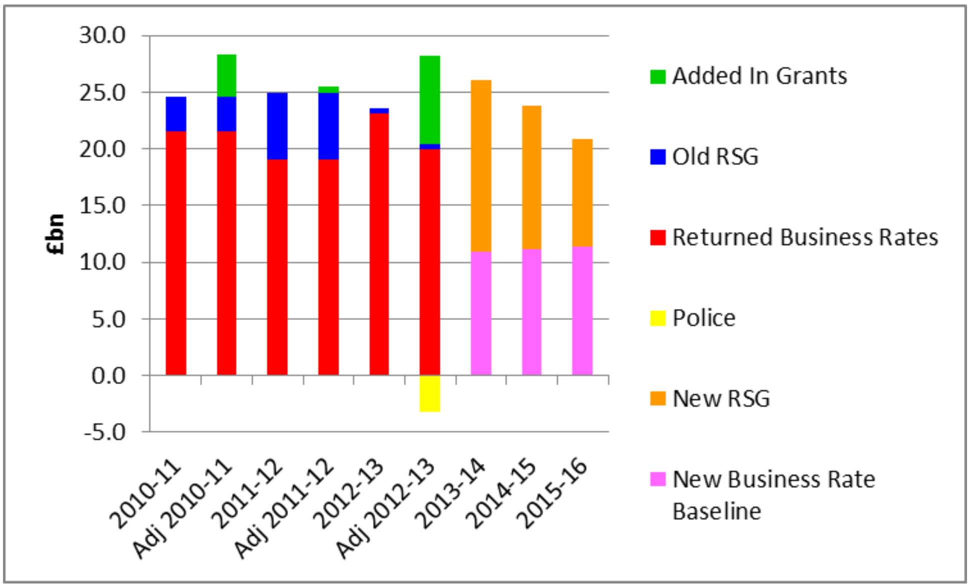
Introduction

3.1 Revenue expenditure is what we spend on day to day services provided by the Council e.g. care for the elderly and vulnerable adults, ensuring access to high quality schools, libraries, running the road network, etc. It includes the cost of salaries for staff employed by the Council, contracts for services procured by the Council, the costs of financing borrowing to support the capital programme and other goods and services consumed by the Council. Our revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in the Council's medium term financial plan.

3.2 Over the past 5 years we have had to make significant reductions in revenue spending in response to the national economic situation and the squeeze on public spending to tackle the national budget deficit. This was a period of significant change marked in the first 3 years by the transfer of previously separate grants into the main local government settlement. This effectively merged the previous Formula Grant distribution with the additional grants added in. Individual elements within the overall merged amounts were reduced by different proportions allowing some degree of protection.

3.3 From 2013-14 a new system was introduced with 50% of business rates retained locally and new Revenue Support Grant (RSG) based on the same individual elements from the previous system. RSG continued to be reduced with differing degrees of protection for individual elements. Over the 5 year period it was difficult to isolate the impact of funding reductions due to the transfers. Central grant allocations took no account of additional spending demands. The impact is presented in chart 1 which shows the overall amount within the central settlement and how it changed over the period.

Chart 1



3.4 Evolving the revenue strategy for the next three years (2016-19) has proved difficult due to the absence of government spending plans or a clear idea of any other changes intended for local authority funding. The best we could do was to predict the impact of estimated further reductions based on the further reductions in RSG from the 2015-16 amounts as demonstrated in chart 1. Based on these assumptions KCC's RSG was forecast to decline at a faster rate than the annual uplift in the business rate baseline, as demonstrated in table 1. This trend formed the backdrop to the revenue strategy.

Table 1	2015-16 Original £m	*2015-16 Adjusted £m*	2016-17 Forecast £m	2017-18 Forecast £m	2018-19 Forecast £m	3 Year Change
RSG	161.0	*166.1*	130.0	95.0	64.0	-61.5%
Baseline	170.5	*170.5*	174.8	179.0	183.0	7.3%
of which						
Top-up	122.9	*122.9*	126.0	129.0	132	7.4%
Local Share (9%)	47.6	*47.6*	48.8	50.0	51	7.1%
Total	331.5	*336.7*	304.8	274.0	247.0	-26.6%

3.5 The amounts from table 1 were reflected in the 2016-17 and 2017-18 projections in the published 2015-18 MTFP. The published MTFP showed the reduction in other grants from the assumed transfers into RSG and further estimated reductions in 2016-17. It also showed the assumed increases in council tax base and tax rates from increases up to the assumed referendum level. Taking all of these into account, net funding was forecast to reduce from £916.5m in 2015-16 to £891m in 2016-17 and £874.3m in 2017-18. The published MTFP assumptions are set out in table 2, which includes a memo column showing the assumed adjusted 2015-16 base inherent in the assumptions (although this was not published).

Table 2	2015-16 Approved £m	*Memo 2015-16 Assumed Adjusted £m*	2016-17 Forecast £m	2017-18 Forecast £m
Council Tax Yield	549.0	*549.0*	562.8	576.9
Council Tax Collection Fund	7.1	*7.1*	0.0	0.0
Business Rate Share	49.2	*49.2*	50.4	51.6
Business Rate Collection Fund	0.5	*0.5*	0.0	0.0
Revenue Support Grant	161.0	*166.1*	130.0	95.0
Business Rate Top-up	122.9	*122.9*	126.0	129.0
Other Grants	26.7	*21.6*	21.8	21.8
Net Funding	916.5	*916.5*	891.0	874.3

3.6 Consultation on KCC's 2016-17 budget and updated MTFP was launched on 13th October 2015. The consultation set out the equation as summarised in table 3 below. This consultation included an additional £3m from a higher council tax base than the amount included in the MTFP shown in table 2. The final budget and MTFP takes account of responses to the consultation as well as any supplementary updates, including the provisional settlement announcement on 17th December and final settlement approved on 10th February.

Table 3	2016-17		2017-18	
	£m	%	£m	%
Grants Reductions	32.9	10.6%	32.0	11.5%
Spending Demands	58.4	6.4%	41.0	4.6%
Council Tax/Rates Increases	-10.4	-1.7%	-15.3	-2.5%
Savings	-80.9	-8.8%	-57.6	-6.4%

3.7 The provisional Local Government Finance Settlement included a proposed recalculation of RSG reductions which represents a significant redistribution from the assumptions included in the consultation. The 2016-17 budget and 2016-19 MTFP have been recast to reflect the new methodology. This effectively makes previous forecasts obsolete. We could not have anticipated this change. In previous years the revenue strategy has provided a detailed derivation of grant forecasts and explanation of the grant methodology. This analysis would be worthless now in light of the changes. The new proposed methodology is described in Section 2 of the MTFP and the following paragraphs set-out the details for KCC for 2016-17 and indicative figures for 2017-18 to 2019-20.

Provisional Local Government Finance Settlement 2016-20

3.8 The proposed RSG in the provisional settlement includes the following key changes:

- The transfer of previously separate grants (principally Social Care and Lead Local Flood Authority) into RSG
- The top-slice from RSG within the overall Local Government DEL to fund increases in other funding to local government (principally New Homes Bonus and business rate safety net)
- Aggregation of the individual components of RSG (including transfers) into a single sum for each authority
- The aggregated RSG is combined with business rate baseline (including top-up) and 2015-16 council tax requirement which is subject to a pro rata reduction for all authorities (different reduction rates apply to different tiers based on derived Spending Review totals)

3.9 Table 4 shows individual elements which made up KCC's original 2015-16 baseline and RSG and the adjustments to derive the adjusted 2015-16 amounts. The total 2015-16 adjusted RSG and baseline form the single aggregated sums for KCC.

Table 4	Original 2015-16 Baseline £m	Original 2015-16 RSG £m	Original 2015-16 Total SFA £m	Adjustments £m	Adjusted 2015-16 RSG £m	Adjusted 2015-16 Total SFA £m
Upper-Tier Funding	132.4	105.3	237.7		105.3	237.7
Council Tax Freeze Compensation Part 1	6.0	8.3	14.2		8.3	14.2
Early Intervention Funding	16.9	17.3	34.3		17.3	34.3
Lead Local Flood Authority Funding	0.1	0.1	0.3		0.1	0.3
Learning Disability and Health Reform Funding	15.2	21.6	36.8		21.6	36.8
Council Tax Freeze Compensation Part 2		5.8	5.8		5.8	5.8
Local Welfare Provision		2.6	2.6		2.6	2.6
Council Tax Freeze Compensation 2015-16				0.0	0.0	0.0
Care Act 2014 - relative needs				4.7	4.7	4.7
Care Act 2014 - deferred payments				3.4	3.4	3.4
Lead Local Flood Authority Grant				0.3	0.3	0.3
Sustainable Drainage Systems				0.0	0.0	0.0
Total	170.5	161.0	331.5	8.5	169.5	340.0

3.10 Table 5 shows how the 2016-17 provisional RSG has been calculated compared to the adjusted 2015-16 in table 4. The pro rata adjustment is based on the adjusted 2015-16 RSG (£169.5m) plus the 2015-16 baseline (£170.5m) and the 2015-16 Council Tax requirement (£549.0m). This is scaled to the available resources using the same factor for all upper tier authorities (0.936303174). The 2015-16 base and council tax requirement are then deducted to derive the 2016-17 RSG. The 2016-17 SFA is based on the 2016-17 RSG and the uplifted 2016-17 baseline.

Table 5				
Ref	Derivation			KCC
(a)		2015-16 Baseline	£m	170.5
(b)	(a)+0.83%	2016-17 Baseline (uplifted)	£m	172.0
(c)		2015-16 Adjusted RSG	£m	169.5
(d)		2015-16 Council Tax Reqirement	£m	549.0
(e)	(a)+(c)+(d)	Total Adjusted 2015-16 Resources	£m	889.0
(f)		Scaling Factor		0.9363
(g)	(e)x(f)	2015-16 Scaled Adjusted Resources	£m	832.4
(h)	(g)-(b)-(d)	2016-17 RSG	£m	111.4
(i)	(b) + (h)	2016-17 Total SFA	£m	283.4

3.11 A similar approach is adopted for 2017-18 to 2019-20 where each year with the previous year's RSG and uplifted baseline are added together with the 2015-16 council tax requirement and the resulting total scaled to the available resources and the baseline and council tax then deducted to derive the scaled RSG. The uplifted baseline is then added to determine the SFA for each year. The KCC calculations are shown in table 6. This shows a significant decline from the earlier estimates (table 1) included in 2015-18 MTFP and the basis of KCC's budget consultation.

Table 6				
	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Settlement Funding Assessment	283.4	241.8	218.2	195.8
of which:				
Revenue Support Grant	111.4	66.5	37.6	9.5
Baseline Funding Level	172.0	175.3	180.5	186.3
Tariff/Top-Up	124.0	126.4	130.1	134.3

3.12 The provisional settlement also includes a spending power calculation for each authority. This includes the settlement funding assessment from table 6 (plus the adjusted SFA for 2015-16 from table 4), the government's estimate of the council tax yield from increases in the base and inflationary uplifts up to the referendum threshold, the additional council tax from the 2% social care levy, the new improved Better Care Fund from 2017-18 and preferred option on New Homes Bonus. This is a simplistic view which does not include all funding sources available to local authorities (although it does represent the principle sources) and takes no account of additional spending demands. The published spending power calculations for KCC are reproduced in table 7.

Table 7					
Core Spending Power of Local Government					
	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	340.0	283.4	241.8	218.2	195.8
Council Tax of which;	549.0	577.2	609.7	644.6	682.2
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*549.0*	*566.0*	*586.3*	*608.0*	*631.1*
additional revenue from 2% referendum principle for social care	-	*11.2*	*23.3*	*36.6*	*51.1*
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	-	-	-	-	-
Improved Better Care Fund	-	-	*0.3*	*17.5*	*33.7*
New Homes Bonus and returned funding	7.9	*9.3*	*9.4*	*5.9*	*5.7*
Rural Services Delivery Grant	-	-	-	-	-
Core Spending Power	**896.9**	**869.9**	**861.1**	**886.2**	**917.3**
Change over the Spending Review period (£ millions)					20.4
Change over the Spending Review period (% change)					2.3%

3.13 The provisional Education Services Grant (ESG) for 2016-17 has been announced. The funding rates per pupil for local authorities and academies have been reduced by 11.5% as outlined in section 2 of the MTFP. The local authority retained duties rate remains unchanged. The provisional settlement is based on the October 2015 pupil census in maintained schools (used to calculate the local authority grant) and academies as at 1st November. As in previous years this will be adjusted quarterly to reflect the actual number of pupils in maintained schools and academies. In the budget for 2016-17 we have included a lower ESG figure than the provisional settlement to include estimated impact of future academy conversions and the recalculation of grant during the forthcoming year.

3.14 We are still awaiting the announcement of three other un-ring-fenced grants which have included as part of net funding in previous years:

- Business Rate compensation – this is paid to local authorities to compensate for their share of business rate income which is lost as a result of additional reliefs awarded by the chancellor in Autumn/March budgets to alleviate the impact of business rates e.g. doubling of small business rate relief, retail relief, etc.
- Extended free school travel
- Inshore sea fisheries

The budget includes estimates for the grants. These grants have not been announced in time for the revised draft for County Council and may have a small impact on the overall net budget.

3.15 There are also a number of other specific or ring-fenced grants which had not been announced from other government departments prior to the County Council agreeing the budget on 11th February e.g. public health, asylum, Care Act prisons' grant, Independent Living Fund, etc. The budget includes estimates for these grants. Should the actual grants vary from the estimates we would adjust spending plans accordingly. This would have no impact on the net budget.

Final Local Government Finance Settlement 2016-20

3.16 KCC's allocation from the additional transitional grant was £5.7m in each of 2016-17 and 2017-18. KCC does not qualify for the rural services delivery grant and the county's overall ranking is a long way from the lower quartile of super sparsity used to determine these grant allocations. KCC did not have a negative RSG allocation and thus does not benefit from this change. The final settlement also included a very marginal change in New Homes Bonus adjustment to reflect the impact of revised new homes data for some authorities. The impact on Spending Power calculations (table 7 revised) is shown below.

Table 7 (Revised for Final Settlement)

Illustrative Core Spending Power of Local Government;

	2015-16	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment*	340.0	283.4	241.8	218.2	195.8
Council Tax of which;	549.0	577.2	609.7	644.6	682.2
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*549.0*	*566.0*	*586.3*	*608.0*	*631.1*
additional revenue from referendum principle for social care	-	*11.2*	*23.3*	*36.6*	*51.1*
additional revenue from £5 referendum principle for all Districts' Band D Council Tax level	-	-	-	-	-
Improved Better Care Fund	-	-	0.3	17.5	33.7
New Homes Bonus	7.9	9.3	9.4	5.9	5.6
Rural Services Grant	-	-	-	-	-
Transition Grant	-	5.7	5.7	-	-
Core Spending Power	**896.9**	**875.5**	**866.8**	**886.2**	**917.3**
Change over the Spending Review period (£ millions)					20.4
Change over the Spending Review period (% change)					2.3%

Council Tax and Local Share of Business Rates

3.17 The Council Tax base notification from district councils shows a 2.1% increase over 2015-16. This compares to 1% assumed for the consultation. The detail for individual districts is shown in section 2 of the Budget Book 2016-17. Initial analysis indicates that this larger than expected increase is due to a combination of more households being included on the valuation list and fewer discounts being applied (particularly Council Tax Support). We hope to provide a more detailed analysis of the underlying reasons for the tax base increase identifying separately the impact of new households, changes in discounts and exemptions, and collection rates. This analysis should help to inform future tax base estimates.

3.18 The final council tax collection fund balances, business rate tax base and business rate collection fund balances were included in the final motion for County Council. Overall these were £0.3m lower than had been anticipated when the final budget was published. The impact was reflected in the revised amount to be drawn down from reserves in the final approved budget. .

3.19 The strategy for the forthcoming MTFP is built on the assumption that the County Council element of council tax will be increased up to the referendum level each year. This provides the Council with a sustainable source of income. We have assumed the referendum limit will be 2% each year. The strategy is also based on levying the additional 2% social care precept each year. This assumption is based on forecast spending on social care continuing to rise with increases in estimated spending exceeding the increased income from the additional council tax precept. Despite planning for annual council tax increases this will not fully cover additional spending demands and reductions in central government funding. Significant savings are still forecast each year to make up the difference.

3.20 The forecast Council Tax also includes an estimate of 1% annual growth in the tax base from new dwellings/discounts in 2017-18, with growth forecasts reducing to 0.5% in the following years. We will review these future forecasts in light of the fuller analysis referred to in paragraph 3.16. We have also agreed with all district councils that they undertake a fundamental review of Council Tax Reduction Schemes (CTRS) for working age tax payers in receipt of benefits or on low incomes. Any changes to CTRS schemes would have an impact on the council tax base.

3.21 It is vital to the revenue strategy that the County Council continues to foster good relationships with district councils to maximise the collectable council tax base and collection rates, to our mutual benefit. For its part the County Council has committed to help district councils cover their additional costs in managing local Council Tax Support schemes for a further year in 2016-17. The County Council is also committed to supporting districts in other ways to maximise the council tax yield including removing erroneous claims for discounts and exemptions, and tackling fraud. This close collaboration is reflected in the larger than anticipated increase in the tax base for 2016-17.

3.22 The local share of business rates continues to be a marginal source of income for the county council. The baseline has been increased by the uplift in the NNDR multiplier (0.8% based on September RPI) and the county will continue to receive 9% of any growth in the tax base under the national arrangements. A business rate pool between 10 district councils, KCC, and Kent and Medway Fire and Rescue Authority has been approved. Under the governance arrangements for the pool KCC receives 30% of the additional business rate income generated by the pool. The final 2016-17 budget includes an estimate for this share from the pool together with other business rate proceeds used to fund the overall net budget.

3.23 The Autumn Statement confirmed that the government intends to reform local government funding during the current parliament, allowing local authorities to retain 100% of business rates. Currently 50% is retained locally, subject to redistribution of the baseline through a series of tariffs and top-ups. The remaining 50% is returned to HM Treasury to fund RSG and other grants. At this stage we have not factored this reform into the revenue strategy pending further government consultation.

Spending Demands

3.24 Forecasts for spending demands are based upon a combination of in-year monitoring of budgets, and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends agreed as part of setting the 2015-16 budget are also shown as additional spending demand.

3.25 At the time of the budget consultation we estimated the following additional spending demands:

- £20.9m for estimated pay and price increases in 2016-17 (including change to employer's national insurance contributions)
- £20.1m for higher than anticipated current activity in 2015-16 and estimated additional demand and demographic changes in 2016-17
- £4.9m for additional funding to support the capital programme and other investment in services in 2016-17
- £12.4m to replace one-off use of reserves and underspends in the 2015-16 base budget

For simplicity the consultation did not include any estimates for the impact of additional spending or income from ring-fenced grants e.g. health funding.

3.26 Since the consultation a number of significant changes to spending demands have been identified. The most significant relates to the impact of the introduction of the National Living Wage on social care prices for 2016-17. Further work is needed to better understand care providers' costs and appropriate contribution from KCC. This will be resolved during the year following agreement of new price guides with providers.

3.27 The final budget includes the impact of transferring funding for the Care Act 2014 into RSG. The cost of delivering new responsibilities will no longer be offset by a separate grant allocation from DCLG. The amount needed to realign budgets in line with current activity has also been revised and increased using latest budget monitoring returns. Investment in additional capital financing costs has been removed.

3.28 The final approved budget has the following additional spending demands:

- £25.8m for estimated pay and price increases in 2016-17 (£78.8m over 3 years). This includes the estimated impact of the new National Living Wage
- £21.3m for higher than anticipated current activity in 2015-16 and estimated additional demand and demographic changes in 2016-17 (£57.1m over 3 years)
- £4.9m for the impact of legislative changes in 2016-17 including impact of transfer of grant to support ongoing Care Act 2014 responsibilities (£6.4m over 3 years)
- £10.9m for invest to save initiatives and service improvements in 2016-17 (£16.2m over 3 years)
- £12.4m to replace one-off use of reserves and underspends in the 2015-16 base budget (£30.3m over 3 years)

3.29 Full details of the additional spending demands for 2016-17 are set out in appendix A(ii) of the MTFP and over the 3 year plan in appendix A(i). All managers in the County Council must do all they can to find ways to reduce and avoid additional spending demands as this reduces the need to find savings to offset the impact of estimated future funding reductions. This will need to be a more significant feature of future revenue budget strategy i.e. to avoid the need to find money to fund additional spending demands.

Savings and Income

3.30 Over the last few years the County Council has had to make unprecedented levels of savings to offset the impact of reduced government funding and meeting the cost of additional spending demands. This trend is predicted to continue throughout this MTFP as a result of the "flat cash" settlement for local government in the spending review and provisional settlement (as set out in section 2). "Flat cash" includes the phased withdrawal of RSG, government forecasts for increases in council tax (including the additional 2% social care precept), improved Better Care Fund, and reformed New Homes Bonus. It does not include any additional spending demands.

3.31 Therefore, council tax increases are included in the national financial and economic strategy as part of the fiscal consolidation to repair the public finances. This is reflected in KCC's revenue strategy. However, council tax is only part of the solution and significant amounts are anticipated to be needed from delivering further savings. For convenience we have separated these into separate sections covering transformation savings (providing the same or better outcomes from alternative approaches at less cost), income generation, efficiency savings (doing the same for less), financing savings and policy savings (things we accept we can do less of, restrict services or stop altogether).

3.32 At the time of the consultation we estimated the need to make £80.9m of savings in 2016-17 in order to balance the combination of additional spending demands, reduced central funding and council tax increase up to the referendum level. Without the proposed increase in council tax £92m of savings would have been required.

3.33 The final MTFP reported to County Council identifies the need for £80.8m of savings in 2016-17 (£200.8m over 3 years). This has changed from the consultation despite the additional 2% social care council tax precept and a higher than forecast council tax base growth. The changes to savings required are due to the impact of the Local Government Finance Settlement (see below) and further additional spending demands not anticipated at the time of the consultation, these include:

- Additional pressure on prices due to the introduction of the National Living Wage with no specific funding
- The transfer of funding for ongoing responsibilities under the Care Act 2014 into RSG
- Additional activity in 2015-16 requiring increased budget realignment for 2016-17
- Invest to save initiatives and other investments in service improvement

3.34 The spending review, and much more significantly the provisional Local Government Finance Settlement, resulted in larger reductions in central funding than we could have anticipated. The provisional RSG settlement was £18m worse than we had been anticipating following the Spending Review, for the reasons outlined in paragraph 3.8. There were some mitigating factors e.g. better than anticipated council tax base increase, meaning we had to find an additional £15m of savings following the provisional settlement. The announcement of transitional grant in the final settlement provided some respite and reduced the need to draw down from reserves in order to balance the 2016-17 budget. Nonetheless, the forecasts in the 2016-19 MTFP show further unidentified savings of £51.9m in 2017-18 and £31.1m in 2018-19.

3.35 A significant amount of the savings for 2016-17 (£22.7m) will come from financing savings. This includes draw down from long-term reserves (this will need to be paid back at some time in the future), reduced contributions to reserves to cover future risks, and slower repayment of loans taken out to fund capital programme. This approach has knock-on consequences for 2017-18 and future years. Details of all the savings proposals for 2016-17 are set out in appendix A(ii) of the MTFP and for 3 years in Appendix A(i).

Budget Summaries & Medium Term Financial Plan

3.36 The budget templates in appendix A of the MTFP show a high level "at a glance" summary of the three year plan together with a more detailed presentation of the 2016-17 proposals as they affect each directorate. A directorate based presentation was introduced in 2014-15 to better reflect the way that the council's finances are managed and reported through the budget monitoring during the year.

3.37 At this stage £8.9m of the budget is held unallocated. This includes additional spending demands (pay and reward/national insurance) which will be allocated following performance reward assessments and approval of pay strategy at County Council.

3.38 The budget for 2016-17 is presented in the existing A to Z format.

Budget Consultation and Engagement

3.39 A budget communication and engagement strategy commenced on 13th October 2015 with a press launch and publication of our outline budget plans. This was aimed at increasing public understanding of the financial challenge, particularly around growing demand for council services and central funding reductions, and to get more engagement with Kent residents. Consultation was open from 13th October to 24th November 2015. This was specifically designed to fit in with national announcements so that responses were not influenced by reaction to the Autumn Statement and Spending Review announcement on 25th November 2015. The main consultation sought views on council tax and was supported by an on-line budget modelling tool which enabled respondents to identify their priorities for £1,000 of council spending.

3.40 The consultation was open for a shorter period than in previous years, but nonetheless we aimed to get similar or better levels of engagement. In total we received 1,693 responses to the council tax question (less than the 1,962 responses in 2014). We received 1,198 submissions via the budget monitoring tool (more than the 853 responses in 2014.) We also commissioned independent market research which included 757 face to face interviews (more than the 514 telephone interviews in 2014), and in-depth workshop sessions with 92 residents. Overall this achieved the objective of better levels of engagement but we need further improvements next year.

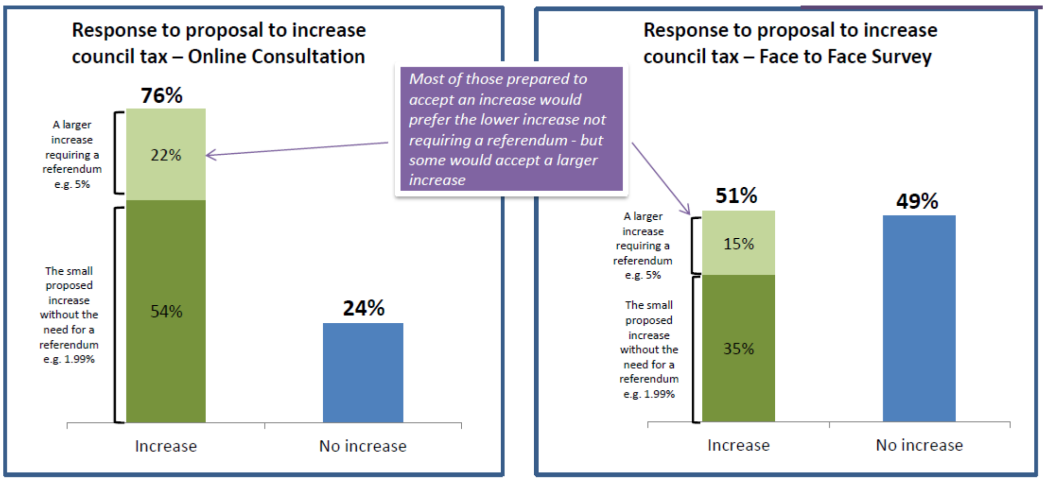
3.41 The council tax question asked "KCC is proposing a small increase in council tax (up to the amount permitted without having to arrange a formal referendum) to contribute towards the additional demands being placed on council services and to provide some protection for local services". Respondents were given the following options:

a) I'd accept the small proposed increase without the need for a referendum e.g. 1.99%
b) I'd accept a larger increase requiring a referendum e.g. 5%
c) No increase

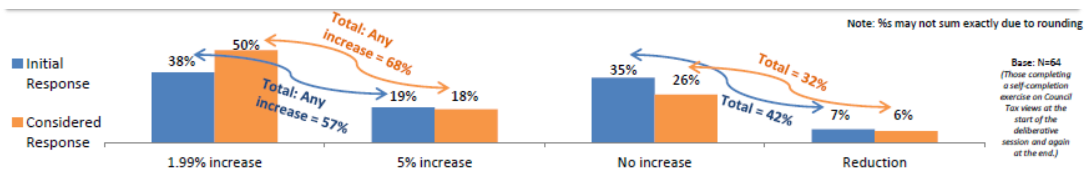
3.42 The responses to the council tax question were as follows:

a) Small increase without the need for a referendum 920 (54.3%)
b) Larger increase requiring a referendum 369 (21.8%)
c) No increase 404 (23.9%)

3.43 The face to face interviews gave a slightly different picture with fewer respondents supporting an increase. The consultants tested this difference during the in-depth workshops and found that people's views changed and accepted council tax increases more readily once they understood more about the KCC budget issues. The results from the face to face surveys and the workshops are reproduced below.



Bases: Face to face survey = 757 respondents, Online consultation = 1693 respondents.
Question: KCC is proposing a small increase in Council Tax to contribute towards the additional spending demands being placed on council services and to provide some protection for local services from the savings that would otherwise need to be found…How much Council Tax would you be willing to pay towards the financial challenge the authority faces next year?. Illustrations of the equivalent monetary increase per week and per year were given. The "No increase" option was framed as "No increase and make equivalent cuts to and make equivalent cuts to services (of around £11m per year) on top of the estimated £80m already needed to balance the budget



3.44 A full report and executive summary from the consultation responses and market research have been published. These can be found at www.kent.gov.uk/budget.

3.45 The consultation information is published as part of the background information and appendices to Cabinet and County Council decisions. We accept that further work is needed to improve communication of the financial challenge and how the Council spends public money.

Response to the 2016-17 Provisional Settlement

3.46 The provisional settlement was announced on 17th December 2015 and included proposals for a significant redistribution of central government funding. This came with no prior notification or consultation, and was subject to a short consultation period closing on 15th January 2016. We responded by the deadline. This was an exceedingly tight timescale at the same time as we were analysing the responses to our own consultation and preparing the final budget proposals.

3.47 The provisional settlement sought views on 17 specific questions, including the following:

- The revised methodology for allocation central funding with RSG reductions based on total resources from RSG, business rate baseline (including top-up) and council tax
- Transitional mechanisms (the proposed allocations included no transitional damping and effectively resulted in negative RSG allocations for some authorities in later years)
- Reductions in RSG to fund New Homes Bonus and business rate safety net protection
- Identification of specific elements within the spending power (without matching protection within RSG)
- Transfer of separate grants for Care Act, Lead Local Flood, etc. into RSG
- Alternative suggestions to secure the required spending

3.48 KCC provided a comprehensive response setting out its concerns with the settlement. In particular the council recognises that spending reductions are necessary, but is concerned that flat cash for local government over 4 years is not good enough and more funding needs to be made available in the first 2 years, especially for county councils. The county has called for a fundamental needs-led review to revise the distributions for 2017-18 and inform the new business rates arrangements. This would require the offer of 4 year guaranteed settlement to be withdrawn.

3.49 The response provides evidence of the impact of reductions in central funding combined with recurring additional spending demands. In particular it concludes that substantial savings will be required as council tax cannot make up for both these. The response also highlights the impact on our ability to invest in capital infrastructure (and the likely deterioration as a consequence). The response has also highlighted our concerns about the unjustified lower reductions for some authorities and the impact of late announcement on our budget setting and scrutiny process. We have provided evidence of the particular pressures in relation to social care and the inadequacy of RSG redistribution, council tax flexibility and improved Better Care Fund.

3.50 The full response is available as an appendix to Cabinet and County Council reports.

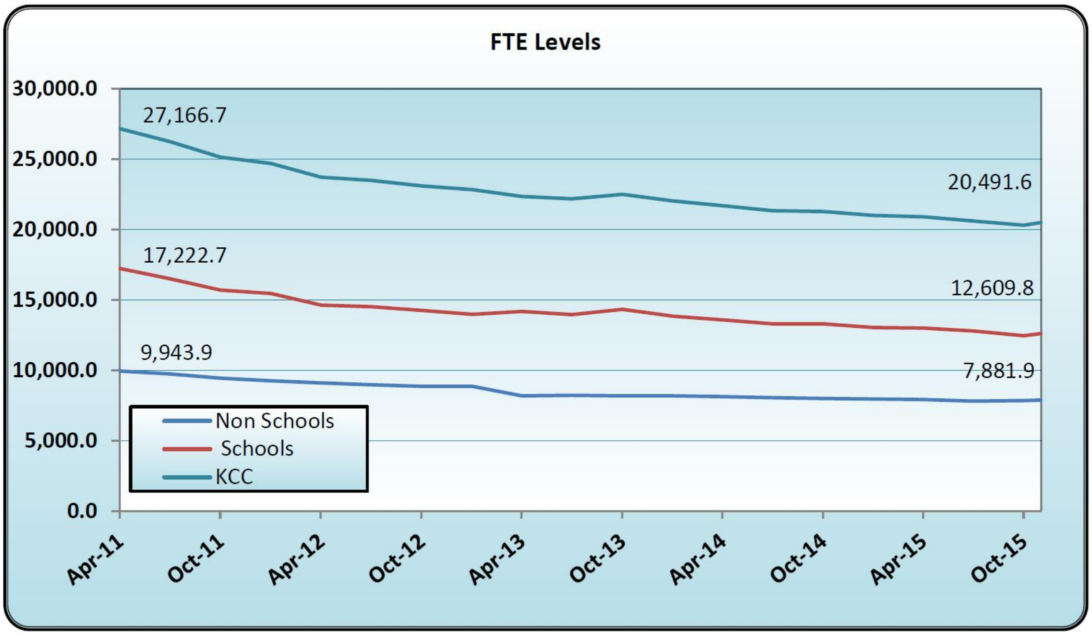
Workforce Strategy

3.51 KCC's aim is to develop a workforce that is engaged and adaptable to change and has the skills, knowledge & behavioural competencies to support & deliver effective services to (external & internal) customers. This is delivered within well-constructed and appropriate terms and conditions and reward structure.

3.52 KCC is committed to organisational design principles intended to ensure the alignment of our people, structure and processes to maximise the capacity and performance of the management structure and decision making accountability.

3.53 Chart 2 sets out the changes in full time equivalent (FTE) staff numbers since April 2011

Chart 2



Changes in staffing levels:
Between April 2011 and November 2015 the Authority's workforce decreased by over 6,500 full time equivalents.

Non Schools:

- Approximately one third of the reduction was from the non-schools sector (2,062 FTE) and changes included:
- Commercial Services leaving the Authority in April 2013, resulting in a reduction of around 470 FTE.
- Pupil Referral Units being reported under the 'Schools' sector from April 2013, accounting for a decrease of 265 FTE.
- 1,429 redundancies in the non-schools sector during the period April 2011 to November 2015.
- Sickness levels in the non-schools sector, calculated as an annual rolling average, showed a reduction from 7.8 days lost per FTE in April 2011, to 6.98 days lost per FTE in November 2015.

Schools:

- The number of staff in the schools sector decreased by around 4,600 FTE in the period April 2011 to November 2015.
- Schools may opt to purchase HR and Payroll services from providers other than KCC and the number of schools buying KCC's services varies from year to year, which impacts on reported staffing numbers. Additionally, numbers have decreased as schools have left the Authority to adopt Academy status (106 schools since April 2012).

3.54 Despite the continued reduction in staffing numbers overall, we still have a large population that need effective mechanisms for recruitment, retention and performance management. The service transformation agenda across all Directorates requires a suitably competent workforce in the right place at the right time. We maintain organisational wide programmes aimed at increasing self-sufficiency, new work practices and eliminating duplication of effort and processes.

Approved Budget 2016-17

3.55 Our approved budget provides for the following major new investments for 2016-17:

- £2.5m into Special Needs home to school transport due to higher than budgeted numbers and cost in 2015-16 and forecast demographic trends in 2016-17
- £14.5m into Adult Social Care for older people and vulnerable adults in response to higher than budgeted numbers and cost in 2015-16, and forecast further demand and demographic trends in 2016-17
- £1.0m into specialist children's services in response to increasing complexity and care leavers not supported by specific government grant
- £2.1m into Waste Disposal in response to falling prices for recycled materials and forecast increases in waste tonnage
- £0.5m for increased number of free bus journeys under English National Concessionary Fares Scheme

- £4.5m into support for carers and other ongoing additional responsibilities under the Care Act 2014 transferred into general funding
- £5.5m into invest to save programmes
- £1.9m to improve customer access to KCC contact centre and on-line services

3.56 Our 2016-17 approved budget includes the following major areas for £90.3m savings and income, including the following significant areas:

- Adults transformation programme £10.2m
- Children's transformation programme £3.2m
- Streetlight LEDs £1.6m
- Bus routes reduced subsidies £0.8m
- Property commercialisation & reductions in asset stock £2.1m
- SEN transport transformation £0.4m
- Income from client charges £2.6m
- Income from Commercial Services & other trading activity £2.7m
- Staff reductions £5.1m
- Procurement and contract savings £11.5m
- Reduced demand for home to school transport (incl. YPTP) £1.6m
- Reduced revenue spend on highway maintenance to focus on pothole repairs £2.3m
- Efficiency and other savings on older people's services £1.1m
- Reduced publicity spend £0.7m
- Reduction in local member grants £0.4m
- Drawdown from reserves £10.9m
- Reduced contributions to reserves £10m
- Reductions in new borrowing and slower debt repayment £4.3m

3.57 The previous paragraphs have set out where we have changed the Budget to reflect our strategies and plans next year. What can often be overlooked are those services we have been able to protect and these include (but not exclusively):

- Social Care services for the most vulnerable elderly, adults and children;
- Pothole repairs and winter emergencies;
- Provision of waste recycling facilities;

3.58 Our budget reflects:

- A small increase in Council Tax (1.998%) to help fund increases in demand across all KCC services and provide some protection for services from reductions in central government funding
- A further 2% increase in council tax specifically for adult social care services
- A decrease in the net budget (excluding schools) of 0.6%
- A decrease in central government funding 14.2% including 34.3% reduction in Revenue Support Grant as shown in the Government's Spending Power calculation for KCC.

- Need for savings of £80.8m (8.8% of net spending excluding schools)
- Drawdown from reserves of £10.9m (6.4% of total earmarked reserves as at April 2015)

Sensitivity Analysis

3.59 Our budgets are constructed using sound and prudent assumptions over spending, inflationary pressures and our ability to realise additional income generation, efficiencies and service transformation. We are confident that the budgets can be delivered.

3.60 We are fully aware of the high risk budgets within the Council, which are largely those over which we have limited or no control in the short term. We will continue to focus support to the highest risk areas (financial, operational and reputational). The general reserve to meet unforeseen circumstances is forecast to be £37.2m at the end of 2015-16 which equates to just over 4% of net expenditure.

3.61 We are planning to drawdown a further £10.9m from earmarked reserves in 2016-17 in addition to previous year's drawdown and borrowing against long term reserves. As a general rule we would not recommend using such reserves to balance the budget but in difficult times and in response the very late and unexpected further reduction in central government funding this is a necessary expediency.

Conclusion

3.62 The Government has set us a massive challenge to lead the way in making public expenditure reductions. In our budget, we have followed our revenue strategy, reflecting genuine and unavoidable spending demands and cost increases, and driving out efficiency savings across the organisation. To help smooth the impact of transformation and to mitigate the late and unexpected further reductions in central government funding we have undertaken reviews of our level of reserves and repayment of debt. It has been a real challenge, but our budget reflects the structural changes which will ensure we have a lean and efficient organisation, fit for the economic climate we face. Our budget also includes significant transformation in care services. We are acutely aware that transformation savings require us to change the relationship we have with clients and providers to change behaviours and demand for traditional services.

3.63 The County Council has approved a small increase in council tax (1.998%) to help protect services both in relation to additional spending demands (largely unavoidable) and from reductions in central funding. The Council has also agreed a further 2% increase specifically for social care services. It would be unreasonable to increase tax beyond these levels and a significant part of the financial challenge needs to be found from making savings and reducing spending. This pattern of increasing spending demands imposed on council services, reduced central funding, limited council tax increases and significant savings/spending reductions in order to balance the budget is likely to continue for the foreseeable future.

KCC Medium Term Financial Plan

SECTION 4

Capital Strategy

CAPITAL STRATEGY

4. Overview

Introduction

4.1 The capital strategy has been in place for three years, and continues to take a transformational stance. The process to support this strategy has been embedded and is an important tool to aid directing resources to appropriate projects in the light of budget pressures.

4.2 Capital expenditure is defined as the purchase or enhancement of assets where the benefits last longer than the year of expenditure. A de-minimis level is applied – for KCC this is £10k i.e. anything below this value individually is classed and treated as revenue.

4.3 The capital budget should support the overall objectives of the organisation, and act as an enabler for transformation to support Kent County Council's (KCC's) strategic priorities.

4.4 Over recent years KCC has spent an average of £222m per year on capital projects. We plan to invest £709m over the next three years and to finance 11.8% of this expenditure from borrowing which will impact on our revenue budget.

4.5 Capital investment shapes the future, ensures the organisation is fit for purpose, and can transform services and ways of working. It can act as a catalyst and enabler for change. Our spending on capital remains a significant proportion of overall spend and provides an important driver for economic growth - stimulating regeneration and construction, and providing local jobs for local people.

4.6 With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. The "squeeze" from Central Government continues to be felt across the Local Government sector and the recent unprecedented increase in construction inflation has significantly added to the pressure on the capital programme. Therefore, it remains vital that we target limited resources to maximum effect with a sharper focus on our strategic priorities and 'invest to save' opportunities.

4.7 We will use capital investment proactively as an enabler and facilitator for driving transformation in service delivery in our communities. We will become agile and flexible enough to be able to both plan ahead and to respond innovatively to emerging opportunities and challenges. We will target and maximise investments, manage risk, anticipate trends and radically re-think how best to focus our capital programme to keep pace with changes in national policy, legislative requirements and business needs.

What role does the Capital Strategy play?

4.8 The capital strategy sets out the strategic direction for KCC's capital management and investment plans, and is an integral part of our medium to long term financial and service planning and budget setting process. It sets the principles for prioritising our capital investment under the prudential system.

4.9 Capital plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways. However capital is not unlimited or "free money" – our capital funding decisions can have significant revenue implications. Every £10m of prudential borrowing costs approximately £1m per annum in financing costs (revenue) for 25 years. This is in addition to any ongoing maintenance and running costs associated with the investment. Our fiscal indicator limits our spend on debt charges, to 15% of the Council's net revenue budget. As revenue budgets are reducing this heightens the need to ensure we get the best benefit from capital investment.

4.10 KCC's budget planning processes integrate both capital and revenue so that coherent decisions are made on a level of borrowing that is prudent, affordable and sustainable for the Council. The difficult financial environment means we have to spend limited money wisely and there is a delicate balancing act in managing these types of potential pressures effectively.

Ambition

4.11 The Council continues to take a transformational stance in relation to its capital strategy. This involves setting aside some capital projects in favour of others that are more in-line with current strategic priorities. This stance will enable maximum flexibility but could also result in increased capital spend. This is being funded through rigorous capital receipts targets, better targeted invest to save projects and other innovative funding streams.

Drivers for Change

4.12 This is a time of unprecedented change in the public sector and the following drivers for change inform and impact on our Capital Strategy.

A sustained and complex financial challenge

4.13 The medium to long-term financial position for local authorities remains extremely challenging. The combination of the on-going national drive for austerity until at least 2020, with sustained reductions in local government funding and unfunded rising demand pressures for public services add up to an unprecedented financial challenge for KCC.

4.14 The Council's strategic statement **'Increasing Opportunities, Improving Outcomes'** reflects the need for KCC to become a very different type of council over the next five years. Given the financial challenges we face, if we are to remain committed to securing high-quality services for our residents and supporting choices for people to live independently in our communities, we must become an outcome-focused strategic commissioning authority. This means ensuring that every pound spent in Kent is delivering better outcomes for Kent's residents, communities and businesses.

4.15 To achieve this, we need to selectively and creatively target capital investment to deliver innovative services that deliver best value for Kent's communities. Our future capital programme must be outcome focused and deliver tangible benefits that support the strategic and supporting outcomes in the Strategic Statement.

4.16 The challenge of delivering an ambitious capital programme is in the very nature of capital projects, which do not always deliver to anticipated timescales or budgets, (e.g. building projects delayed by funding, planning or construction issues). This can potentially risk increasing costs and creating additional revenue pressures. In a challenging financial environment it is essential that we have effective procurement, robust contract management and a strong focus on managing costs to ensure every penny counts.

4.17 The Council's **Commissioning Framework** aims to support KCC to deliver better outcomes through improved commissioning throughout the entire commissioning cycle, from initial analysis to contract management and review. Part of our improved approach to commissioning is putting customers at the heart, and this is underpinned by our new **Customer Service Policy**, which provides a commitment to deliver quality, customer-focused services through intelligent commissioning.

4.18 The Council's **Voluntary and Community Sector Policy** sets out our future relationship with the sector within a strategic commissioning authority model and commits to grant funding within a commissioning approach. It introduces a new grant framework for the local authority, ensuring that KCC grants are used to deliver against the outcomes set out within our Strategic Statement and that the VCS is engaged throughout the commissioning cycle. Using the intelligence and expertise of VCS organisations should be a key part of the commissioning cycle and will help us to deliver better outcomes.

Stimulating growth

4.19 Capital investment is a key catalyst for economic growth through funding transformational regeneration and infrastructure projects that generate jobs, enhance Kent's skills base and create an efficient highways network. We need to ensure that our capital investment is informed by the Kent & Medway Growth & Infrastructure Framework

(GIF) which identifies the total investment required to deliver planned growth in the county including the funding gap, and supports the priorities in the forthcoming Local Transport Plan. This will help us to secure additional Government investment and will benefit both the wider Kent economy and our residents.

4.20 We will work closely with our district partners, central government and private developers to ensure that we are able to deliver the right level of infrastructure and maximise developer contributions to facilitate sustainable growth. As part of this, we will work with our public, private and voluntary & community sector partners to seize appropriate external capital funding opportunities and join up capital funding bids.

Growth and demand pressures in education

4.21 The national policy environment for education continues to evolve and shape the role of KCC as the Local Education Authority and our relationship with our maintained schools, academy trusts and free schools. The demographic changes within Kent continue to show rising demand for school places until the early 2020's, increasingly at secondary schools over the next few years as the existing primary numbers begin to feed through into the secondary phase. We need to provide sufficient sustainable, quality education facilities to meet the needs of children and young people within Kent's communities, prioritising needs within the limited national funding available and the increasingly difficult environment in respect of developer contributions, balancing this with the savings we need to make as an organisation.

4.22 Our capital investment in education, set out in our Education Commissioning Plan 2016-20, reflects these changes and takes a flexible, pragmatic asset management approach, ensuring KCC invests money in assets we are likely to retain. The Basic Need Programme will ensure we will meet our requirements for the academic year 2016-17 and beyond. We will continue to work closely with schools and academies to ensure that capital investment is targeted where limited resources can be used to best effect.

Service transformation and integration

4.23 As a strategic commissioning authority, we aim to integrate services around the life cycle of client groups. This means our services will be organised around the needs of service users and residents and not the priorities of the service provider or service professionals. This coupled with national drivers such as the integration of health and social care will significantly change the way we work and use our community assets.

4.24 We need to ensure we use capital in an innovative way that will provide the property and ICT assets to enable and facilitate this change. The new ICT Strategy will set out how we will maximise opportunities presented by new technologies and market changes to respond to our changing business requirements. We will ensure there is a robust business case for investment in our existing assets so they remain fit for purpose to respond to rising customer demands, expectations and changing needs. We will maximise capital receipts and target capital funding to reinvest in enhancing community facilities, to modernise and transform service delivery within community settings, to better meet the needs of our customers, and to deliver better quality outcomes.

4.25 We will explore asset collaboration opportunities and shared technology solutions with our public, private and voluntary and community sector partners to invest in new ways of working. This will enable us to resolve issues as early as possible and provide a consistent quality of service through joined up working and by facilitating the sharing of information between partners.

Strategic asset management

4.26 Capital and assets are two sides of the same coin and it is vital that our capital programme complements the five key themes in our **Asset Management Strategy.** The challenge is to turn the inefficient properties into efficient ones, or if this is not possible, sell and realise a capital receipt to re-invest in a property from which an improved service can be offered. Our asset rationalisation and disposals policy will be more rigorous, creating headroom in the capital programme. We will focus on securing an acceptable market value. We will invest in property in priority locations where modernising assets may help to promote opportunities for co-location, asset collaboration and service integration. Our new property LATCo will deliver the strategy, drive innovation, optimise costs and explore opportunities for income generation.

Doing things differently

4.27 We need to ensure that capital investment can be a catalyst for cultural change. Our **Doing Things Differently** approach looks at what we do and the way we do it including integrating services, streamlining systems and processes and empowering our staff. As the **New Ways of Working** programme completes in March 2016, the principles it has embedded around enabling staff to carry out their roles efficiently, effectively and closer to service users will be incorporated into business as usual.

4.28 We need to continue to invest in ICT infrastructure that will support future service solutions. Our new partnership with Agilisys will transform how customers communicate, access and interact with our services. We want to create more efficient, streamlined systems and promote economic growth (e.g. investment in broadband infrastructure will support learning, employment, skills and business growth, particularly in our rural communities).

Funding

Sources of capital funding

4.29 There are a variety of different sources of capital funding, each having different complications and risks attached.

Borrowing

4.30 KCC currently has borrowing of just under £1 billion and our policy is that net debt costs must not exceed 15% of the net revenue budget. This indicator is at risk of being exceeded, particularly as over the coming years our revenue budget is forecast to reduce. Therefore we must continue to effectively manage our borrowing and look at alternative sources of funding to ensure that we stay within the 15% target over the 3 year Medium Term Financial Plan. The level of borrowing to fund the capital programme must take into account the revenue implications, i.e. for every £10m of borrowing our revenue borrowing costs are around £1m and we must also consider the Prudential Code.

Grants

4.31 The challenging financial environment means that national government grants (currently 50% of our financing for capital projects) are reducing, or changing in nature. A large proportion of this funding is not tied to particular projects but is often tied to a particular area such as education or highways so we do not have complete freedom on where to spend our grants. Our aim is to use the grant provided for the intended purpose but also in a way that meets our statutory obligations. Therefore where the grant is not sufficient, other sources of external funding such as Central Government grants and CIL will be explored first, before tapping into KCC resources of capital receipts and borrowing.

Developer Contributions: Community Infrastructure Levy (CIL)/S106

4.32 Developer contributions continue to be a challenging issue and need careful handling and consideration when they are put forward to fund major projects. The nature of s106 agreements mean that once the total funding figure has been agreed, the funding is received by the County Council in staged payments with the full funding potentially not received until the development has been completed and fully occupied; depending on size, a development can take several years to be fully completed. Developer contributions will be built into the programme at the point that planning permission is granted, but it must also be recognised that at this point there are still risks around housing development and realisation of the funding. Careful monitoring of expenditure against this funding is critical to ensure that we don’t have to forward fund significant levels using borrowing.

4.33 The Community Infrastructure Levy (CIL) has been put forward by Government to replace the bulk of future s106 agreements. CIL is to be implemented and managed by districts as the charging authority. To date only two districts in the county have adopted CIL, others are at varying stages of introducing CIL although some may choose not to. The share of CIL funding which Kent will receive in the future is unknown and cannot currently be forecast.

Capital Receipts

4.34 KCC has a rigorous disposal programme, aimed at maximising the return on our assets. These receipts are critical to delivering our capital programme and reducing the level of borrowing that we require. This supports the transformation agenda. KCC's Property managers will work with the service directorates to explore options to release property as part of the transformation reviews to continue to create a sustainable pipeline of funds in the future.

Partnership Working

4.35 We will continue to explore opportunities for more partnership working.

Targeting investment

4.36 The strategy requires a mechanism for determining the way forward in line with the transformational ambition of the Authority, the drivers for change and the constraints that we are under. This means that tough decisions will have to be made as to which projects go ahead and which ones don't (we can't meet all the 'wants'). This section explains the criteria that have been developed to assess capital projects, to ensure that our capital budget is targeted to our priority areas.

Meeting our statutory requirements

4.37 KCC will always ensure that appropriate capital budget is allocated to meet our statutory requirements, such as basic need, health and safety, disability discrimination act (DDA) and other legal requirements. As such it is appropriate to assess the Approval to Plan business cases for the statutory spend against a different set of criteria than for all other spend.

4.38 Statutory bids will be assessed against the following two criteria.

Criteria	Description	Yes/No?
1. Statutory	Evidence must be provided that the bid is for statutory capital expenditure	Y/N
2. Basic minimum	Evidence must be provided that the bid is for doing the basic minimum and no optional extras.	Y/N

4.39 If a bid is submitted via the ‘statutory spend’ route and the answer is ‘No’ to Criterion 1 then the bid will be assessed against the ‘other spend’ matrix. If the answer is ‘Yes’ to Criterion 1, but ‘No’ to Criterion 2 then the bid will be split in two – the element that is requesting capital spend above the basic minimum will be assessed against the ‘other spend’ matrix and if it is not approved then only the basic minimum amount of capital spend will be allowed.

Making the available headroom count

4.40 Having separated the capital budget into ‘statutory spend’ and ‘other spend’, the big question is how we prioritise all the ‘wants’ within the ‘other spend’ category. ‘Other spend’ covers invest to save projects and all other non-statutory projects. These projects should clearly link in with KCC’s strategic priorities.

4.41 The scoring matrix below will be used to assess all bids against the ‘Other Spend’ category:

Criteria	Description	Weighting
1. Benefits	How do the objectives of the bid achieve KCC’s key corporate strategies and any relevant underlying strategies? What are the social/economic outputs? How does it improve service delivery and/or contribute towards long term service provision and integration of services? Does the bid consider the wider organisation and other similar projects and strategies to ensure a joined up approach?	50%
2. Invest to Save	An invest to save bid must generate sufficient savings to pay back the original capital outlay plus any borrowing costs within 10 years of the project completing, and generate ongoing savings.	15%
3. Delivery	Has an achievable delivery mechanism been identified? Have all delivery options been considered?	20%
4. Value for Money	Not only about initial capital cost, but also whole-life cost (and payback period if relevant) and ongoing revenue implications. Is there any match funding?	15%

Governance and process

4.42 In order to deliver the strategy, there is a strong governance framework in place and a rigorous approval process for projects. This ensures that decisions taken are agreed by the right people at the right point, to ensure that the agreed strategy for the capital programme is delivered.

KCC Medium Term Financial Plan

SECTION 5

Treasury Strategy

Treasury Management Strategy Statement and Investment Strategy 2016-17

Introduction

5.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

5.2 In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

5.3 This strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

5.4 The Council has borrowed and invested substantial sums of money and therefore needs to be aware of the financial risks including the possible loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context

Interest Rate Forecast

5.5 The Council's treasury advisor Arlingclose now forecast the first rise in official interest rates of a 0.25% increase in the third quarter of 2016 and then rising by 0.5% per annum until stabilising between 2% and 3% in several years' time. They see a significant potential down side to this forecast with rates staying lower for longer.

5.6 A more detailed economic and interest rate forecast provided by Arlingclose is included in the appendix to this strategy.

Market Outlook

5.7 In last year's Treasury Strategy the impact of changes in banking legislation encompassing the concept of bail-in where investors and depositors take a share of any loss in the event of a bank failure was the major new factor for the Council to respond to. During the last year there has been an increase in the level of confidence in major financial institutions and this has been reflected in Arlingclose extending their recommended durations for these deposits. At the current time unsecured bank deposits still provide the bedrock of the investment strategy despite rates staying stubbornly low.

5.8 Equity markets have seen significant falls over the last 12 months with the FTSE 100 some 10% off the peak reached in April 2015. The Council has therefore not invested in equity funds. Commercial Property has performed well with an anticipated return of around 15% expected in this financial year. The investment in the CCLA Property Fund has performed well and the Council will look to add further to its current investment.

Borrowing Strategy

5.9 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with balances and reserves, are the core drivers of treasury management activity.

5.10 As at 30 November 2015 long term borrowing was £994m including £39m attributable to Medway Council. The Council borrowed £25m in April 2015 at a rate of 3.16%.

5.11 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans in the future is also an important consideration.

5.12 Given the significant reduction in public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

5.13 With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources. This is known as internal borrowing where the Council uses its cash balances instead of Prudential borrowing to support its capital programme. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At the end of March 2015 the level of internal borrowing was £145m. The level of internal borrowing will be closely monitored. With long term rates relatively low and likely to rise we will selectively take opportunities to borrow whilst being very aware of the revenue budget implications.

5.14 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent Superannuation Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK Government backed funding initiatives

5.15 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.16 The Council holds £441.8m of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. LOBO loans were taken out at lower rates than could be achieved through the Public Works Loan Board and were also used for large scale debt rescheduling which produced large revenue budget savings for the Council. Our view is that lenders are unlikely to exercise their options in the current low interest rate environment. The loans taken out were straightforward transactions not the complex and highly disadvantageous instruments which some Councils have now engaged in. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so or should there be an identifiable financial advantage to early repayment.

5.17 The Council retains the ability to take short-term and variable rate loans.

5.18 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The current structure of PWLB rates makes it prohibitively expensive to do this. The Government has announced that it intends to abolish the PWLB but there is still no information on when this will happen or on what form the new agency will take.

Investment Strategy

Approach

5.19 The Council holds significant invested funds, averaging £390m year to December 2015. This is a combination of balances, reserves and net cash flow. In common with most local authorities the actual level of funds available for investment has been increasing.

5.20 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and have regard to the security and liquidity of its investments before seeking higher return. It must also be recognised that given the Council's overall budget position the return achieved is important.

5.21 The overall strategy aims on a daily basis to maximize the returns achieved primarily through unsecured bank deposits and Money Market Funds, whilst adding to returns by using other asset classes, the most significant being Covered Bonds in which the Council now has £98.6m invested.

5.22 No major changes are proposed to this year's Investment Strategy. We need to continue to implement the core highly diversified strategy well and seek opportunities to add value through selective investment in higher returning asset classes.

Counterparty Selection

5.23 The Council will make use of the following asset classes:

(1) **Government:** Loans, bonds and bills issued or guaranteed by national governments and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

(2) **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks, with a minimum credit rating of A-. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investments with banks rated BBB are restricted to overnight deposits at the Council's current account bank.

(3) **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The Council already has a large Covered Bond programme and we await the availability of a reverse purchase agreement programme which the Council could consider investing in.

(4) **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

(5) **Money Market Funds:** These are pooled investment funds managed by major financial institutions. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

(6) **Investment Portfolio:** Investments can be made in Pooled Funds including Property Funds, Absolute Return Funds, Equity Income Funds, Fixed Income Funds and local opportunistic investments. These funds will be used for longer investment periods and have the advantage of providing wide diversification of investment risks, but require the services of a professional fund manager in return for a fee.

Risk Assessment and Credit Ratings

5.24 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.25 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

5.26 The Council understands that credit ratings are useful, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.27 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

5.28 The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

5.29 The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments

5.30 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The Council will have the ability at its discretion to use banks with a BBB+ rating to a maximum of £10m.

Proposed Counterparty banks and building societies

5.31 At this stage there are limited proposed changes to the counterparty list. The Deputy Leader and Cabinet Member for Finance and Procurement and Corporate Director of Finance and Procurement may add counterparties that meet our credit rating requirement. The proposed names are:

- UK Central Government
- Major UK banks and building societies
  - Barclays Bank Plc
  - HSBC Bank Plc
  - Lloyds Banking Group – Lloyds/Bank of Scotland
  - RBS Group - NatWest/Royal Bank of Scotland
  - Santander UK Plc
  - Nationwide Building Society
- Leeds Building Society
- Close Brothers
- Small UK building societies meeting Arlingclose criteria
- Svenska Handelsbanken
- Netherlands
  - Bank Nederlande Gemeeten
  - Rabobank
- Singapore
  - OCBC
  - UOB
- Denmark
  - Nordea Bank
- USA
  - JP Morgan Chase
- Australia
  - Australian and New Zealand Banking Group
  - Commonwealth Bank of Australia
  - National Australian Bank Ltd
  - Westpac Banking Corp
- Canada
  - Bank of Montreal
  - Bank of Nova Scotia
  - Canadian Imperial Bank of Commerce
  - Royal Bank of Canada
  - Toronto Dominion Bank

5.32 The main changes to the counterparty list from last year are:

- Reinstatement of the RBS Group for overnight call money only.
- Additional European, Singapore and USA banks which Arlingclose currently recommend.

5.33 The permitted forms of investments will be:

- Call accounts / Notice accounts
- Money Market Funds
- Term deposits
- Certificates of deposit
- Treasury bills
- Covered bonds
- Corporate bonds (non-financials) minimum rating A
- Supranational bonds AAA rated and issued by the World Bank, European Investment Bank, European Bank for Reconstruction and Development or Nordic Investment Bank.
- Reverse Purchase agreements (Repos) with collateral of AA or better
- Pooled investment funds (total £75m)

Counterparty Limits

5.34 For 2015-16 Arlingclose reduced their recommended maximum allocation from 10% to 5% for unsecured deposits with financial institutions. The Council left open the option of retaining the 10% allocation, reducing it if credit conditions worsened. This has not happened and so we have retained the higher limits as this is a useful way of adding yield by making the most use of those counterparties paying higher rates. The limits can be reduced at any time by the Deputy Leader and Cabinet Member for Finance and Procurement and the Corporate Director of Finance and Procurement.

5.35 The recommended counterparty limits for unsecured investments are:

• Central UK Government	unlimited
• Money Market Funds	£10m each
• Major UK banks and building societies, minimum rating A-	£40m (then £20m) each
• Major UK banks and building societies, minimum rating BBB+	£20m
• Leeds Building Society	£10m
• Close Brothers	£10m
• Svenska Handelsbanken (reflecting its UK branch presence)	£40m (then £20m)

•	Australian and Canadian banks (£40m country limit)	£20m each
•	Other international banks (£40m country limit)	£20m each
•	Small UK building societies meeting Arlingclose criteria	£1m each to a maximum of £15m

5.36 The recommended limits for secured and bail-in exempt investments are:

•	Supranational bonds	£40m total
•	Covered bonds	£150m total with £20m per issuer
•	Corporate bonds	£20m total with £2m per issuer
•	Reverse purchase agreements	£40m each

5.37 The recommended allocation within the £75m Investment Portfolio is:

•	Absolute Return Funds	£5m per Fund
•	Equity Income Funds	£5m per Fund
•	Fixed Income Funds	£5m per Fund
•	Local Opportunistic Investments	£5m per Fund
•	CCLA Local Authorities Property Fund	maximum allocation of 5% of the total fund (currently £569m).

Duration of Investments

5.38 The maximum duration for unsecured term deposits and Certificates of deposit will be 13 months. For secured investments the maximum duration will be 5 years.

Treasury Advisors

5.39 The Council has appointed Arlingclose Limited as its treasury advisors and receives advice on investment, debt and capital finance issues. The treasury advisor contract will be retendered in 2016.

KCC Governance

5.40 The Corporate Director of Finance and Procurement is responsible for the Council's treasury management operations, with day to day responsibility delegated to the Head of Financial Services and Treasury and Investments Manager. The detailed responsibilities are set out in the Council's Treasury Management Practices.

5.41 A sub-committee of Cabinet has been established to work with the officers on treasury management issues – the Treasury Management Advisory Group (TMAG). The group consists of the Deputy Leader and Cabinet Member for Finance and Procurement, Deputy Cabinet Member for Finance and Procurement, Chairman Policy and Resources Cabinet Committee, Chairman Superannuation Fund Committee, Leader UKIP Group, Finance Spokesman Labour Group and Finance Spokesman Liberal Democrat Group.

5.42 TMAG's agreed terms of reference are that it "will be responsible for advising the Cabinet and Corporate Director of Finance and Procurement on treasury management policy within KCC's overarching Treasury Management Policy". TMAG meets the requirement in the CIPFA Treasury Management Code for a member body focussing specifically on treasury management. TMAG meets regularly and members of the group receive detailed information on a weekly and monthly basis.

5.43 Whilst Council will agree the Treasury Management Strategy, all amendments to the strategy during the year will be agreed by the Corporate Director of Finance and Procurement and the Deputy Leader and Cabinet Member for Finance and Procurement or Cabinet where a change in policy is proposed.

5.44 Governance and Audit Committee receives quarterly Treasury Management update reports and a report is made to Council twice a year.

Appendix - Interest Rate Forecast

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Average
Official Bank Rate														
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.33
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**	**1.08**
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	0.75
3-month LIBID rate														
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.35
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**	**1.18**
Downside risk	0.10	0.20	0.30	0.45	0.55	0.65	0.80	0.90	1.05	1.10	1.20	1.20	1.20	0.75
1-yr LIBID rate														
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.40
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**	**1.74**
Downside risk	0.15	0.25	0.35	0.50	0.60	0.70	0.85	0.95	1.10	1.15	1.25	1.25	1.25	0.80
5-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**	**1.97**
Downside risk	0.35	0.45	0.55	0.60	0.70	0.80	0.90	1.00	1.10	1.15	1.20	1.25	1.25	0.87
10-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**	**2.45**
Downside risk	0.35	0.45	0.55	0.60	0.70	0.80	0.90	1.00	1.10	1.15	1.20	1.25	1.25	0.87
20-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**	**2.71**
Downside risk	0.30	0.40	0.50	0.55	0.65	0.75	0.85	0.95	1.05	1.10	1.15	1.20	1.20	0.82
50-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**	**2.75**
Downside risk	0.25	0.35	0.45	0.50	0.60	0.70	0.80	0.90	1.00	1.05	1.10	1.15	1.15	0.77

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressures.

KCC Medium Term Financial Plan

SECTION 6

Risk Strategy

RISK MANAGEMENT STRATEGY

Introduction

6.1 As an organisation concerned with service provision and the social and economic development of the county it is essential that the risks to achieving our objectives are managed efficiently and effectively.

6.2 By implementing sound management of our risks and the threats and opportunities which flow from them we will be in a stronger position to deliver our business objectives, provide improved services to the community, achieve better value for money and demonstrate compliance with the Local Audit & Accounts regulations.

6.3 Risk management will therefore be at the heart of our good management practice and our corporate governance arrangements. Our risk management arrangements will be proactive and will enable decisions to be based on properly assessed risks that balance risk and reward, ensuring that the right actions are taken at the right time.

6.4 Our risk management framework is based on the Office of Government Commerce publication *Management of Risk: Guidance for Practitioners* which provides a 'best practice' reference point for risk management. It is derived from the HM Treasury 'Orange Book' and is closely aligned and informed by the international standard for risk management ISO: 31000.

Context

6.5 Additional spending demands and ongoing public sector austerity measures mean that KCC, like all local authorities, continues to face serious financial and operational challenges. This will mean that KCC is exposed to significant and increasing levels of risk in its operating environment, with less resource to manage those risks. Therefore the Authority is likely to be required to accept or tolerate greater levels of risk in conducting its business as it seeks to innovate and transform in order to protect the quality of services for service users and residents of Kent.

6.6 The Council's move towards a Strategic Commissioning Authority requires a review of the Council's governance arrangements, including the risk management framework, which will evolve as the Authority evolves. This is expected to require a greater focus on all elements of the risk framework – our culture, behaviours and values as well as processes and procedures.

Risk Management Objectives

6.7 In support of the Council's move towards a strategic commissioning authority and achievement of KCC's desired outcomes, the Council aims to:

- manage risks in line with its risk appetite, and thereby enable it to achieve its objectives more effectively;
- apply recognised best practice to manage risk using a balanced, practical and effective approach (Office of Government Commerce publication *Management of Risk: Guidance for Practitioners*);
- embed effective risk management into the culture of the Council;
- integrate the identification and management of risk into policy and operational decisions, anticipating and responding proactively to social, environmental and legislative changes and directives that may impact on delivery of our objectives;
- eliminate or reduce the impact, disruption and loss from current and emerging events;
- harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes;
- ensure effective intelligence sharing and collaboration between risk management disciplines across all Council activities;
- ensure fraud risks are proactively considered and embedded into the organisation's risk management arrangements;
- benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge;
- demonstrate a consistent approach to the management of risks when embarking on significant change activity; and
- ensure sound and transparent risk management arrangements are operated in partnership and commissioner / provider situations, underpinned by a culture that supports collaboration and the development of trust ensuring clear effective lines of communication and the management of relationships.

6.8 Over the period of this medium term financial plan, the risk management aims will be achieved by:

- maintaining the common links between business planning, performance and risk management;
- integrating effective risk management practices into the Council's management, decision making and planning activities;
- using available business technology to store and share risk information and providing the business with access to a repository of risk knowledge and learning;

- maintaining the frequency and effectiveness of monitoring of key risks in line with the Council's internal control framework;
- embedding risk management into the *Kent Manager Standard* and wider Leadership & Management Development Framework;
- highlighting and promoting our attitude and approach to risk as one of the nine key service design principles to enable change;
- providing a mix of risk management training, awareness sessions and support for both Officers and Members of the County Council;
- ensuring links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the Council;
- subjecting KCC's risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity;
- ensuring risk management arrangements are embedded within the Council's four change portfolios;
- providing continuous challenge and quality assurance to all elements of the risk management process;
- promoting a wide understanding of the Council's risk appetite and how it translates into tolerance levels within a service or programme setting;
- focusing on robust monitoring of mitigating actions to ensure that risks, once identified and assessed, are appropriately managed;
- working collaboratively with partners and providers (both internal and external) to develop effective risk ownership and risk sharing arrangements; striking a proportionate balance of oversight of risks of providers / partners without being over-constrictive.

Risk Appetite

6.9 The *Facing the Challenge – whole Council transformation* (July 13) document outlined the intention for the Council to have "a mature approach to the management of risk, one that has moved beyond the traditional local government approach centred on a risk-averse culture that seeks to mitigate risk beyond all reasonable doubt, to managing risk based on an appropriate balance of probabilities in regards to the likelihood of risk occurring and the impact a risk issue might have".

6.10 Kent County Council recognises that risk is inherent in delivering and commissioning services and does not seek to avoid all risk, but instead aims to have an 'open' approach to risk, with risks managed in a proportionate manner.

6.11 As local authorities face continued reductions in Government funding in the coming years, the Authority's environment will, by default, contain greater risk, and therefore it is likely that KCC will need to accept higher levels of risk in order to meet its desired outcomes. This will require an approach that allows flexibility and support for well-informed and considered risk taking, promoting transparency and effective risk management, while maintaining accountability. Whilst risks defined as 'high' are to be managed down to a tolerable level, it is important that risks across the Authority are not over-controlled.

6.12 It is not realistic for the County Council, with its diverse range of services and duties, to have just one definitive application of risk appetite across the entire organisation. Instead, risk appetite should be set with reference to the strategy for service delivery in each particular area. However, examples of risks that would be seen as intolerable are those that are likely to:

- Negatively affect the safety of our service users, residents or employees;
- Severely damage the Authority's reputation;
- Lead to breaches of laws and regulations;
- Endanger the future operations of the County Council (i.e. by exceeding the risk capacity of the organisation – the amount of risk that the Authority can bear).

Roles and responsibilities

6.13 Responsibility for risk management runs throughout the Council; everyone has a role to play. However, to ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified. The key roles and responsibilities are set out below:

Group or Individual	Responsibilities
County Council	Ensure that an effective system of risk management is in place.
Governance & Audit Committee	On behalf of the Council ensure that risk management and internal control systems are in place that are adequate for purpose, and are effectively and efficiently operated.

Cabinet	Responsibility for the operation of the risk management system, including the establishment of the Council's risk appetite. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Cabinet Member for Business Strategy, Audit & Transformation	On behalf of Cabinet ensure effective risk management arrangements are put in place
Cabinet Portfolio Holders	Responsibility for the effective management of risk within their portfolio areas and ensuring that they consider risks in all decisions they make
Cabinet Committees	To provide scrutiny pre-decision to ensure that due consideration is given to associated risks.
Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.
Corporate Management Team (CMT)	To ensure the Council manages risks effectively through the Risk Management Policy and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Portfolio / Programme / Project Boards	To ensure that portfolio, programme and project risks are effectively identified and managed and that any impacts on the business that may follow implementation are reported and managed.
Corporate Assurance function and Portfolio Delivery Managers	To develop and ensure implementation of portfolio, programme and project governance, controls and risk management arrangements to successfully deliver outputs and secure desired outcomes and benefits.
Directorate Management Teams (DMT)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Corporate Management Team as appropriate.

Divisional Management Teams (DivMT)	Responsibility for the effective management of risk within divisions, including risk escalation, and reporting to DMT as appropriate.
Corporate Director Strategic & Corporate Services (Head of Paid Service)	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate.
Director Strategy, Policy, Relationships and Corporate Assurance	Establish the organisational context and objectives for risk management and map the external and internal risk environment. Develop and maintain the risk management policy, strategy, management guidance and support resources.
Corporate Risk Manager	Promote a positive risk management culture within KCC, developing and implementing the risk management framework and strategic approach and continuing to develop and embed an effective infrastructure for managing and reporting risk. Facilitate maintenance of an up to date Corporate Risk Register and provide reports on corporate risk to Cabinet members and the Corporate Management Team. Facilitate the risk management process within the Council and advise on developments on risk management. Assist key individuals with implementing and embedding risk within key Council areas and provide guidance, training and support as required.
Corporate Risk Team	Day to day responsibility for developing and co-ordinating risk management across the Council and providing advice, support and training, and contributing to ongoing regular reporting on risk management.
Internal Audit	Assesses the effectiveness of the risk management framework and the control environment in mitigating risk.
Directors and Managers	Ensure that effective risk management arrangements are in place in their areas of responsibility to minimise the Council's exposure to risk and uncertainty. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
All elected Members and staff members	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.

6.14 Other officer groups deal with related risk specialisms such as Health and Safety; Treasury Management; Emergency Resilience and Business Continuity; Insurance; Information Security; Anti-fraud and corruption etc. These groups are linked into the governance arrangements of the Council so that their work is co-ordinated within the Council's overall risk management framework.

Embedding of Risk Management

6.15 The Governance & Audit Committee reviews and approves the Council's Risk Management Policy & Strategy annually, and its implementation is endorsed by the Council's Cabinet Members and Corporate Management Team. Management guidance is in place to aid effective implementation of the Policy and is published on our intranet site.

6.16 A dedicated Corporate Risk Team is in place to promote awareness of risk management throughout the organisation and ensure that it is widely understood, and in particular works closely with Risk and Control / Action Owners, in addition to a network of risk management contacts.

Appendix A (i) - High Level 2016-19 Budget Summary

2015-16			2016-17		2017-18		2018-19	
£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	940,313	**Revised 2015-16 Base Budget**		**916,479**		**911,050**		**888,607**
		Additional Spending Pressures						
9,210		Net budget realignments from previous year	10,994		239		110	
12,557		Replacement of one-off use of reserves to fund base budget	12,379		10,852		1,700	
11,363		Pay & Prices	25,767		26,409		26,631	
9,600		Demand & Demographic	10,333		15,563		19,837	
20,672		Government & Legislative	4,939		1,500		0	
8,275		Service Strategies and Improvements	10,921		4,281		994	
	71,677	**Total Pressures**		**75,333**		**58,843**		**49,271**
		Savings & Income						
		Transformation Savings						
-14,725		Adults Transformation Programmes	-10,228		-3,740		-1,615	
-5,583		Children's Transformation Programmes	-3,220		-991		-395	
-6,990		Other Transformation Programmes	-3,176		-2,379		-1,272	
-16,634		Income Generation	-6,999		-3,019		-1,275	
		Efficiency Savings						
-9,512		Staffing	-5,097		-2,257		0	
-2,522		Premises	-1,444		-1,056		0	
-16,316		Contracts & Procurement	-11,539		-3,960		0	
-1,004		Other	-9,112		-3,656		-60	
-17,440		Financing Savings	-22,664		-1,700		0	
-4,785		Policy Savings	-7,283		-6,594		-3,005	
	-95,511	**Total Savings & Income**		**-80,761**		**-29,352**		**-7,622**
		Public Health & Other Grants						
11,894		Government & Legislative pressures	13,857		0		0	
0		Reduction in grants used for specific purposes (estimate)	5,633		0		0	
-11,894		Increases in Grants and Contributions	-13,857		0		0	
0		Policy Savings	-5,633		0		0	
	0			0		0		0
	0	Unidentified		0		-51,934		-31,128
	916,479	**Net Budget Requirement**		**911,050**		**888,607**		**899,129**
		Funded by						
		Un-ringfenced Grants						
161,005		Revenue Support Grant	111,425		66,476		37,640	
N/A		Transition Grant	5,682		5,685		0	
122,939		Business Rate Top-Up Grant	123,964		126,402		130,131	
26,744		Other un-ringfenced grants (estimate)	26,318		25,151		37,378	
49,227		Local Share of Retained Business Rates	51,414		52,358		53,801	
451		Business Rate Collection Fund	-2,137					
549,034		Council Tax Yield	571,976		589,434		604,648	
N/A		Proposed Social Care Precept	11,205		23,102		35,531	
7,079		Council Tax Collection Fund	11,203		0		0	
	916,479	**Total Funding**		**911,050**		**888,607**		**899,129**

(Figures subject to rounding)

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2015-16 Base	Approved budget by County Council on 12 February 2015	72,646.7	477,192.8	170,112.0	66,744.2	125,782.8	4,000.0	916,478.5	
Base Adjustments (internal)	Approved changes to budgets which have nil overall affect on net budget requirement	-3,858.6	5,899.6	-127.9	3,827.8	330.1	-6,071.0	0.0	
Base Adjustments (external)	Approved changes to budgets from external factors e.g. grant changes and may affect net budget requirement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Revised 2015-16 Base		**68,788.1**	**483,092.4**	**169,984.1**	**70,572.0**	**126,112.9**	**-2,071.0**	**916,478.5**	**916,478.5**
Additional Spending Pressures									
Net Budget Realignment	*Necessary adjustments to reflect current and forecast activity levels from in-year monitoring reports*								
SEN Transport	Higher than budgeted number of SEND pupils travelling from home to school and higher overall costs as a result of other factors such as distance and type of travel	1,500.0	0.0	0.0	0.0	0.0		1,500.0	
Adult Social Services	To reflect current forecast activity and spend in Adult Social Services	0.0	6,266.1	0.0	0.0	0.0		6,266.1	
Asylum	Cost of support for care leavers from the asylum service not funded through asylum grant	0.0	550.0	0.0	0.0	0.0		550.0	
Concessionary fares	Higher number of journeys partially offset by lower cost per journey than estimated in the 2015-16 budget	0.0	0.0	450.0	0.0	0.0		450.0	10,994.1
Waste	Higher than budgeted tonnage partially offset by other base savings	0.0	0.0	390.0	0.0	0.0		390.0	
Waste income	Dry recyclable waste: fall in income from sales and increase in disposal costs	0.0	0.0	1,243.0	0.0	0.0		1,243.0	
Other	Phasing adjustment to prior year savings	0.0	0.0	25.0	570.0	0.0		595.0	
Replace use of one-offs	Impact of not being able to repeat one-off use of reserves and underspends in approved base budget for 2015-16	0.0	679.0	0.0	0.0	11,700.0		12,379.0	12,379.0

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Pay and Prices									
Pay and Reward	Additional contribution to performance reward pot and impact on base budget of uplifting pay grades in accordance with single pay reward scheme	0.0	0.0	0.0	0.0	0.0	3,200.0	3,200.0	25,767.4
National Insurance	Removal of the 3.4% employer National Insurance rebate for staff in the pension scheme from April 2016	0.0	0.0	0.0	0.0	0.0	4,600.0	4,600.0	
Inflation									
Energy	Price increases on energy contracts as estimated by Commercial Services	0.0	0.0	257.3	162.4	0.0		419.7	
Highway Contracts	Index linked increases on maintenance, technical services and traffic management	0.0	0.0	190.2	0.0	0.0		190.2	
Waste Contracts	Index linked increases to composting, haulage & transfer stations, household waste recycling centres, landfill, landfill tax, recycling and waste to energy contracts	0.0	0.0	1,193.4	0.0	0.0		1,193.4	
Adult Social Care	Provision for inflation on commissioned adult social care services, including increases in costs resulting from the National Living Wage	0.0	12,589.0	0.0	0.0	0.0		12,589.0	
Children's Social Care	Provision for inflation on the cost of children's social care	0.0	782.3	0.0	0.0	0.0		782.3	
Home to school transport	Provision for inflation on contracted services and season tickets for mainstream & SEN home to school transport and the 16+ travel card	491.6	0.0	0.0	0.0	0.0		491.6	
Public Transport	Provision for inflation on subsidised bus service contracts and the reimbursement of fares for the young person's travel pass and concessionary fares	0.0	0.0	1,148.6	0.0	0.0		1,148.6	
Insurance	Increase in cost of insurance premiums due to claims activity	0.0	0.0	0.0	0.0	900.0		900.0	
Non specific price provision	Non specific provision for CPI inflation on other negotiated contracts without indexation clauses	0.0	0.0	161.4	91.2	0.0		252.6	

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Demography	*Additional spending associated with increasing population and demographic make-up of the population*								
Older People	Growth in numbers accessing social care as a result of an ageing population and delayed entry into care under transformation programme	0.0	2,000.0	0.0	0.0	0.0		2,000.0	
Adults with Learning Disabilities: transitions and provisions	Growth in client numbers arising from: chlidren progressing into adulthood (transitions), and older adults previously cared for by families (provisions)	0.0	3,674.7	0.0	0.0	0.0		3,674.7	
Adults with Learning Disabilities: complexity	Additional costs resulting from existing clients whose needs are becoming more complex	0.0	2,575.3	0.0	0.0	0.0		2,575.3	10,332.5
Children's Services	Estimated impact of greater complexity of need	0.0	500.0	0.0	0.0	0.0		500.0	
Waste Tonnage	Impact of additional waste anticipated (approx 7,500 tonnes) due to increased number of households	0.0	0.0	480.0	0.0	0.0		480.0	
SEN Transport	Estimated impact of rising pupil population on SEN home to school and college transport	1,017.5	0.0	0.0	0.0	0.0		1,017.5	
Young Persons Travel Pass	Estimated impact of rising population on young persons travel pass	0.0	0.0	85.0	0.0	0.0		85.0	
Government & Legislative									
Funded by Grants and Contributions									
Reduction in Care Act Grant income	Ongoing element of Care Act Grant now absorbed within RSG	0.0	4,500.0	0.0	0.0	0.0		4,500.0	
Deprivation of Liberty Safeguards	Estimated additional assessment costs in Coroners following Supreme Court judgement in March 2014 in relation to mental health	0.0	0.0	125.0	0.0	0.0		125.0	4,938.9
Climate Change Levy	Pressure to reflect that renewable energy will not be exempt from the climate change levy with effect from 1 October 2015	0.0	0.0	257.3	0.0	0.0		257.3	
New Burdens	New burdens funded within Revenue Support Grant	0.0	0.0	0.0	0.0	0.0	56.6	56.6	

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Service Strategies & Improvements									
Transformation	Funding to provide a corporate resource for further transformation activity (without this investment the costs would have to be netted off against future savings)	0.0	0.0	0.0	0.0	2,500.0		2,500.0	
Contribution to asset maintenance reserve	Additional contribution to the Asset Maintenance Reserve to support ongoing programme of ICT refresh	0.0	0.0	0.0	0.0	1,000.0		1,000.0	
SEN Transport	Integrated transport planning software necessary to deliver more efficient travel routes	200.0	0.0	0.0	0.0	0.0		200.0	
Early Help & Prevention	Annual running costs of the new Early Help management information system	250.0	0.0	0.0	0.0	0.0		250.0	
Financing	Managing market prices	0.0	0.0	0.0	0.0	0.0	3,816.9	3,816.9	
Streetlighting	Fee associated with Central Monitoring System necessary to support LED streetlight conversion	0.0	0.0	150.0	0.0	0.0		150.0	10,920.6
Economic Development	Management and coordination of the Kent & Medway Economic Partnership (KMEP)	0.0	0.0	100.0	0.0	0.0		100.0	
Property LATCo	Cost to Property LATCo of full recharge of corporate support services (offset by additional income to central corporate support services as below)	0.0	0.0	0.0	660.9	0.0		660.9	
Flood & Coastal Erosion Risk Levy	Increase in Flood & Coastal Erosion Risk Management Levy	0.0	0.0	0.0	0.0	20.0		20.0	
Contact Centre and Digital Web Platform	Investment in new contact centre & digital web platform contract	0.0	0.0	0.0	1,877.5	0.0		1,877.5	
Other	Other minor service improvements	0.0	227.0	68.3	50.0	0.0		345.3	
	Total Additional Spending Demands	**3,459.1**	**34,343.4**	**6,324.5**	**3,412.0**	**16,120.0**	**11,673.5**	**75,332.5**	

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Savings and Income									
Transformation Savings									
Adults Phase 2 OP/PD	Continued rollout of Phase 2 transformation including initiatives aimed at promoting better integration with health services and better range of support services for clients leaving hospital	0.0	-3,499.1	0.0	0.0	0.0		-3,499.1	
Adults Phase 2 Learning Disability	Continued rollout of Phase 2 transformation including initiatives aimed at reducing dependence on care services for vulnerable adults	0.0	-1,829.7	0.0	0.0	0.0		-1,829.7	-10,227.8
Learning Disability	Full year effect of 2015-16 transformation savings plan to review support packages	0.0	-500.0	0.0	0.0	0.0		-500.0	
OP/PD commissioned services	Reduction to older people and physical disability commissioned services through encouraging greater client independence	0.0	-4,399.0	0.0	0.0	0.0		-4,399.0	
Specialist Children's Services	Reduction in the number and length of time children are in care following improved targeting of preventative services including reduction and improvement in assessment activity	0.0	-3,220.0	0.0	0.0	0.0		-3,220.0	-3,220.0
SEN Transport independent travel initiatives	Savings from initiatives aimed at increasing independent travel to school by SEND pupils including developing independent travel training and direct payments to parents	-423.6	0.0	0.0	0.0	0.0		-423.6	
Street lighting	Conversion of streetlight network to more efficient LED technology and implementation of a central monitoring system	0.0	0.0	-1,618.0	0.0	-96.0		-1,714.0	
Public Transport	Bus operators taking subsidised bus routes into commercial operation, with minor refinements, resulting in a reduction in subsidies paid	0.0	0.0	-315.0	0.0	0.0		-315.0	-3,176.2
Property LATCo	Dividend from and implementation of Property Local Authority Trading Company model	0.0	0.0	0.0	-673.6	0.0		-673.6	
Community Safety & Emergency Planning	Full year effect of integrating services with Police and Fire	0.0	0.0	-50.0	0.0	0.0		-50.0	

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income									
Trading	Increased income from traded services with schools, academies, other local authorities and public bodies	-585.6	0.0	0.0	-100.0	0.0		-685.6	
Client Charges	Uplift in social care client contributions in line with benefit uplifts for 2016-17 and charges for other activity led services including young person's travel pass, libraries, and registration	0.0	-1,530.0	-1,062.3	0.0	0.0		-2,592.3	
Disabled Children's Services	Maximise income from continuing healthcare in residential care	0.0	-60.0	0.0	0.0	0.0		-60.0	
Commercial Business Rate Pool	Explore options for distribution of business rate regeneration pot	0.0	0.0	-500.0	0.0	0.0		-500.0	-6,998.8
Corporate Support Services	Income from full recharge of corporate support service costs to Property LATCo (offset by pressure to Property LATCo above)	0.0	0.0	0.0	-660.9	0.0		-660.9	
Commercial Services	Increased dividend from Commercial Services	0.0	0.0	0.0	0.0	-2,000.0		-2,000.0	
Investment income	Improved returns from cash balances through more diverse investments, and assuming gradual increase in interest rates	0.0	0.0	0.0	0.0	-500.0		-500.0	
Efficiency Savings									
Staffing									
Staff restructures	Service re-design, integration of services and more efficient ways of working resulting in a reduction of staff costs that equates to the equivalent of approx. 150 fte. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations	-703.8	-1,158.0	-1,620.0	-1,615.0	0.0		-5,096.8	-5,096.8
Property									
Established Programmes	Existing savings plans arising from asset rationalisation, facilities management and utility contracts	0.0	0.0	0.0	-1,444.0	0.0		-1,444.0	-1,444.0

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contracts & Procurement									
Disabled Children's Services	Review of contracts and realignment of prices	0.0	-500.0	0.0	0.0	0.0		-500.0	-11,539.1
Housing Related Support	Efficiency savings from standardising the hourly rate within support contracts and review of low level support packages	0.0	-2,016.1	0.0	0.0	0.0		-2,016.1	
Learning Disability	Reduction on external day care contracts	0.0	-130.0	0.0	0.0	0.0		-130.0	
OP/PD meal service	Recommissioning of the Meal Service contract	0.0	-268.0	0.0	0.0	0.0		-268.0	
Learning Disability supported living	Supported living contract reviews and reduction in cost	0.0	-800.0	0.0	0.0	0.0		-800.0	
Early Help & Prevention	Review of commissioned services across Early Help and Preventative Services	-1,891.0	0.0	0.0	0.0	0.0		-1,891.0	
SEN Transport route optimisation	Savings through improved route optimisation and procurement practices	-1,170.0	0.0	0.0	0.0	0.0		-1,170.0	
Infrastructure	Reduction in ICT spend on third party contracts and equipment	0.0	0.0	0.0	-1,410.0	0.0		-1,410.0	
Waste site maintenance	Review of site maintenance budgets	0.0	0.0	-120.0	0.0	0.0		-120.0	
Household waste recycling centres	HWRC efficiencies in line with new waste strategy outcomes	0.0	0.0	-500.0	0.0	0.0		-500.0	
Highways	Review of procurement strategy including extending length of contracts	0.0	0.0	-150.0	0.0	0.0		-150.0	
Environmental Management	Review of natural environment and flood risk strategy	0.0	0.0	-100.0	0.0	0.0		-100.0	
Economic Development	Review of grants and contributions	0.0	0.0	-53.0	0.0	0.0		-53.0	
Waste procurement	Waste procurement savings from contracts due for re-tender in 2016-17, resulting in a reduction in landfill tax and disposal costs, partially offset by increased recycling and compost costs	0.0	0.0	-1,671.0	0.0	0.0		-1,671.0	
Libraries	Saving on book purchases under new contract and reduction in systems project budget	0.0	0.0	-250.0	0.0	0.0		-250.0	
Public Transport	Bus operators fully adopting existing subsidised bus routes, resulting in a reduction in subsidies	0.0	0.0	-510.0	0.0	0.0		-510.0	

Appendix A (ii)
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		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Other									
OP/PD social support	Review the provision of social support services	0.0	-425.0	0.0	0.0	0.0		-425.0	
OP/PD equipment	Recommissioning of the Integrated Community Equipment Service	0.0	-110.0	0.0	0.0	0.0		-110.0	
Specialist Children's Services removal of one-off funding	Removal of one-off funding for transitional arrangements and special operations	0.0	-1,657.8	0.0	0.0	0.0		-1,657.8	
Specialist Children's Services efficiencies	Efficiency savings across specialist children's services including family support, adoption, secure accommodation, in-house fostering, section 17 and day care	0.0	-383.0	0.0	0.0	0.0		-383.0	
Home to school Transport	Reduced demand for home to school transport	-1,092.0	0.0	0.0	0.0	0.0		-1,092.0	
Early Help & Prevention	Review of Troubled Families provision with a view to greater integration with Early Help and Preventative Services	-500.0	0.0	0.0	0.0	0.0		-500.0	
Early Years & Childcare	Reduction in support for projects in Early Years & Childcare Unit	-100.0	0.0	0.0	0.0	0.0		-100.0	-9,111.5
Education Pension costs	Reduction in education staff pension cost commitments	-500.0	0.0	0.0	0.0	0.0		-500.0	
Payments to Districts	Saving from reducing payments to Districts from proceeds of second homes Council Tax discounts	0.0	0.0	0.0	-375.0	0.0		-375.0	
Waste payments to Districts	Discretionary payments to Districts	0.0	0.0	-105.0	0.0	0.0		-105.0	
Highways	Review of non staffing budgets	0.0	0.0	-100.0	0.0	0.0		-100.0	
Libraries	Review of Libraries operating model to align resources with demand at peak times	0.0	0.0	-250.0	0.0	0.0		-250.0	
Young Persons Travel Pass	Reduce budget to reflect reduced take-up and fewer journeys per passholder seen in 2015-16	0.0	0.0	-540.0	0.0	0.0		-540.0	
Social Care	Review of client transport arrangements	0.0	-300.0	0.0	0.0	0.0		-300.0	
Adult Operational Support Unit	Office support cost rationalisation	0.0	-250.0	0.0	0.0	0.0		-250.0	
Publicity Expenditure	Reduction in publicity expenditure across the Council	0.0	0.0	0.0	0.0	0.0	-700.0	-700.0	
Other	Other minor efficiency savings	-196.4	-377.6	-828.3	-321.4	0.0		-1,723.7	

Appendix A (ii)
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		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Financing Savings									
Drawdown reserves & provisions	Net reduction in earmarked reserves including workforce reduction reserve, Supporting People reserve, Medway Preserved Rights reserve, and other Directorate specific reserves & provisions	0.0	-2,263.0	0.0	0.0	-3,988.8		-6,251.8	
Modernising the Council	Reduce the Modernising the Council base budget	0.0	0.0	0.0	0.0	-1,000.0		-1,000.0	
Use of prior year's underspend	Use of uncommitted 2014-15 underspend	0.0	0.0	0.0	0.0	-4,100.0		-4,100.0	
Reductions in contributions to reserves	Removal of one-off contributions to reserves in 2015-16 and base contributions including council tax support & general reserves	0.0	0.0	0.0	0.0	-9,462.2		-9,462.2	-22,664.0
Kings Hill distribution	Increase annual support to the base budget from Kings Hill distribution	0.0	0.0	0.0	0.0	-500.0		-500.0	
Kings Hill reserve	Further one-off draw-down on Kings Hill reserve in response to worse than expected provisional settlement	0.0	0.0	0.0	0.0	-500.0		-500.0	
Revisions to MRP	Revised calculation of amount needed to repay prudential borrowing due to slippage in delivering capital programme together with adjustments in line with the MRP policy outlined in Appendix C of MTFP	0.0	0.0	0.0	0.0	-800.0		-800.0	
External Audit Fee	Reduction in base budget for external audit fee	0.0	0.0	0.0	0.0	-50.0		-50.0	
Policy Savings									
Full year effect of previous savings	Impact of previous decision to remove discretions on home to school transport policy	-300.0	0.0	0.0	0.0	0.0		-300.0	
Learning Disability	Review occupancy and delivery of short break services	0.0	-145.0	0.0	0.0	0.0		-145.0	
Older People & Physical Disability	Review occupancy and delivery of older people residential care services	0.0	-537.0	0.0	0.0	0.0		-537.0	
Highways	Reprioritisation of spend to focus on achieving better outcomes for the network	0.0	0.0	-2,250.0	0.0	0.0		-2,250.0	-7,283.1
Member Grants	Reduce Member Grants by 20%	0.0	0.0	0.0	-420.0	0.0		-420.0	
Capital Financing	Reduction in net debt costs as a consequence of the 2016-19 capital programme	0.0	0.0	0.0	0.0	-3,476.1		-3,476.1	
Other	Other minor policy savings	0.0	0.0	-120.0	-35.0	0.0		-155.0	
Total savings and Income		**-7,462.4**	**-26,358.3**	**-12,712.6**	**-7,054.9**	**-26,473.1**	**-700.0**	**-80,761.3**	

Appendix A (ii)
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		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Public Health & other grants									
0-5 Public Health commissioning	Full year effect of new responsibilities following transfer of 0-5 public health commissioning to Local Authorities from 1 Oct 2015	0.0	11,641.1	0.0	0.0	0.0		11,641.1	
Syrian Vulnerable Persons Relocation Scheme expenditure	Estimated costs incurred from participating in Government's Syrian Vulnerable Persons Relocation Scheme	0.0	1,250.0	0.0	0.0	0.0		1,250.0	15,107.1
Independent Living Fund expenditure	Full year effect of transfer of Independent Living Fund to Local Authorities from 1 July 2015	0.0	2,216.0	0.0	0.0	0.0		2,216.0	
Public Health grant reduction	Estimated impact of national reduction in Public Health Grant	0.0	5,633.0	0.0	0.0	0.0		5,633.0	5,633.0
0-5 Public Health grant income	Grant income from Health for the full year effect of new responsibilities following transfer of 0-5 public health commissioning to Local Authorities from 1 Oct 2015	0.0	-11,641.1	0.0	0.0	0.0		-11,641.1	
Syrian Vulnerable Persons Relocation Scheme income	Estimated grant to fund the costs of participating in Government's Syrian Vulnerable Persons Relocation Scheme	0.0	-1,250.0	0.0	0.0	0.0		-1,250.0	-15,107.1
Independent Living Fund grant income	Assumed level of grant funding for Independent Living Fund	0.0	-2,216.0	0.0	0.0	0.0		-2,216.0	
Public Health expenditure	Corresponding reduction in expenditure in line with estimated changes to Public Health grant above	0.0	-5,633.0	0.0	0.0	0.0		-5,633.0	-5,633.0
Proposed Budget		**64,784.8**	**491,077.5**	**163,596.0**	**66,929.1**	**115,759.8**	**8,902.5**	**911,049.7**	**911,049.7**

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Funding									
Final Settlement	*Notification of funding from central government*								
Revenue Support Grant	Comprises share of previous Formula Grant, Early Intervention Grant, Learning Disability Grant, Council Tax Freeze Grant, Care Act Grant etc. allocated as revenue support grant, including impact of overall reductions in the provisional local government finance settlement							111,424.6	111,424.6
Transition Grant	Additional allocation for 2016-17 and 2017-18 announced in the final local government finance settlement on 8th February to help ease the implementation of Revenue Support Grant changes for those councils with the sharpest reductions							5,682.3	5,682.3
Business Rate Top-up	Top-up derived by comparing local share of business rates according to historical average and business rate baseline share of previous grants including annual uplift in line with business rate multiplier, as per the provisional local government finance settlement							123,963.5	123,963.5
Business Rate Compensation	Compensation for additional reliefs on business rates for small businesses, retail premises and reduction in multiplier paid as un-ringfenced grant by DCLG (estimate)							3,341.7	
Education Services Grant	DfE un-ringfenced grant allocated on per pupil basis to local authorities and academies for central functions (estimate)							12,375.0	26,318.4
New Homes Bonus Grant	DCLG un-ringfenced grant allocated according to increase in tax base, as per the provisional local government finance settlement							9,305.9	
Un-ringfenced grants	Un-ringfenced grants from other Government Departments (estimate)							1,295.8	
Business Rates									
Business Rate Baseline	Local share of business rates baseline based on historical average with annual uplift in line with business rate multiplier, as per the provisional local government finance settlement							47,997.5	51,413.5
Business Rate Local Share	KCC 9% share of local tax base as notified by district councils less baseline share identified above, including proceeds from local business rate pool							3,416.0	
Business Rate Collection Fund	KCC share of surpluses and deficits on business rate collection in 2015-16							-2,136.6	-2,136.6

Appendix A (ii)
Detailed 2016-17 Budget Plan by Directorate

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Local Taxation									
Council Tax Base	KCC band D equivalent tax base as notified by district councils based on 2015-16 Council Tax							560,770.7	571,975.9
Council Tax Increase	Impact of proposed increase in Council Tax up to the 2% referendum level							11,205.2	
Social Care Precept	Impact of proposed further 2% increase in Council Tax for Social Care Precept							11,205.2	11,205.2
Council Tax Collection Fund	KCC share of surpluses and deficits on Council Tax collection in 2015-16							11,202.9	11,202.9
Total Funding								**911,049.7**	**911,049.7**

Key:

E&YP	Education & Young People's Services
SCH&W	Social Care, Health & Wellbeing
GET	Growth, Environment & Transport
S&CS	Strategic & Corporate Services
FI	Financing Items
U	Unallocated

Appendix B
Prudential Indicators

1. Estimate of capital expenditure (including PFI)

Actual	2014-15	£221.845m
Estimate	2015-16	£270.616m
	2016-17	£333.693m
	2017-18	£214.367m
	2018-19	£160.836m

2. Gross Debt and the Capital Financing Requirement (CFR):

The Corporate Director of Finance and Procurement reports that, in light of current commitments and plans reflected in the budget forecast, gross debt is not envisaged to exceed the CFR in 2015-16, nor are there any difficulties envisaged in meeting this requirement for future years.

3. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

Capital financing requirement at 31 March

	2014-15 Actual £000	**2015-16 Forecast £000**	**2016-17 Estimate £000**	**2017-18 Estimate £000**	**2018-19 Estimate £000**
Capital Financing Requirement	1,382,858	1,352,990	1,335,724	1,289,292	1,248,284
Annual increase (decrease) in underlying need to borrow	(52,406)	(29,868)	(17,266)	(46,432)	(41,008)

4. Estimates of ratio of financing costs to net revenue stream

Actual	2014-15	14.19%
Estimate	2015-16	13.64%
	2016-17	13.71%
	2017-18	13.71%
	2018-19	13.49%

5. Estimates of the incremental impact of capital investment decisions on the Council Tax (over and above capital investment decisions taken in previous years)

	2016-17 £	**2017-18 £**	**2018-19 £**
Impact on Band D – cumulative	0.00	0.00	0.00

No new borrowing has been approved that will impact on the Council Tax.

6. **Adoption of the CIPFA Treasury Management Code:**

Kent County Council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

7. **Actual External Debt:**

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2015	**£m**
Borrowing	984
Other Long Term Liabilities	248
Total	**1,232**

8. **Authorised Limit and Operational Boundary for External Debt:**

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet. It has been set on the estimate of the most likely, prudent scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt relating to KCC assets and activities

	2015-16 Approved £m	**2015-16 Revised £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**
Borrowing	1,023	1,023	1,015	1,029	1,045
Other Long Term Liabilities	254	248	248	248	248
Total	**1,277**	**1,271**	**1,263**	**1,277**	**1,293**

Authorised Limit for External Debt managed by KCC including that relating to Medway Council (pre Local government reorganisation)

	2015-16 **Approved £m**	2015-16 **Revised £m**	2016-17 **Estimate £m**	2017-18 **Estimate £m**	2018-19 **Estimate £m**
Borrowing	1,064	1,064	1,055	1,067	1,081
Other Long Term Liabilities	254	248	248	248	248
Total	**1,318**	**1,312**	**1,303**	**1,315**	**1,329**

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt relating to KCC assets and activities

	2015-16 Approved £m	**2015-16 Revised £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**
Borrowing	983	983	975	989	1,005
Other Long Term Liabilities	254	248	248	248	248
Total	**1,237**	**1,231**	**1,223**	**1,237**	**1,253**

Operational Boundary for total debt managed by KCC including that relating to Medway Council etc

	2015-16 Approved £m	**2015-16 Revised £m**	**2016-17 Estimate £m**	**2017-18 Estimate £m**	**2018-19 Estimate £m**
Borrowing	1,024	1,024	1,015	1,027	1,041
Other Long Term Liabilities	254	248	248	248	248
Total	**1,278**	**1,272**	**1,263**	**1,275**	**1,289**

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding amounts.

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the Revenue Budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

	2015-16 Approved %	2015-16 Revised %	2016-17 Estimate %	2017-18 Estimate %	2018-19 Estimate %
Upper limit for Fixed interest rate exposure	100	100	100	100	100
Upper limit for Variable rate exposure	40	40	40	40	40

10. Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
under 12 months	0	10
12 months and within 24 months	0	10
24 months and within 5 years	0	15
5 years and within 10 years	0	15
10 years and within 20 years	5	20
20 years and within 30 years	5	20
30 years and within 40 years	10	25
40 years and within 50 years	10	30
50 years and within 60 years	10	30

11. Upper limit for total principal invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. The increased limits from 2016-17 onwards reflect the Council's proposed investment in bonds and establishment of an investment portfolio.

Upper limit for total principal invested over 364 days	2015-16 Approved £m	2015-16 Revised £m	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
	175	175	230	230	230

Appendix C
Annual Minimum Revenue Provision (MRP) Statement

Authorities are asked to submit a statement on their policy of making MRP to full Council or similar. Any revision to the original statement must also be issued.

In 2008 the Department for Communities and Local Government (DCLG) issued new guidance on the Minimum Revenue Provision. This guidance provided four ready-made options which would be most relevant for the majority of authorities but stated that other approaches are not meant to be ruled out, provided that they are **fully consistent with the statutory duty to make prudent revenue provision**. The options that we have implemented since this new guidance came into operation are:

- 4% of our capital finance requirement before the change in regulations.

- The asset life method in subsequent years. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an “MRP holiday”.

The total of these two methods provided the annual MRP figure from since the regulations changed up until 1 April 2014. However, what this did not do was align the MRP with the repayment of debt and other long term liabilities. Since 1 April 2014 we have continued with the existing calculations but then made an adjustment to reflect the timing of internal and external debt repayment and other long term liabilities. We will continue with that approach which is more prudent, given the challenges that the authority is facing over the next few years. This adjustment will reflect either a deferment of MRP against the calculation or an additional contribution, on an annual basis.

Any adjustment made will be reflected in later years to ensure the overall repayment of our liabilities is covered at the appropriate point in time. This will depend on the position of our balance sheet each year and will be a new calculation each year but using the same principles.

This method retains the guidance calculations but allows for a more prudent approach, ensuring that adequate provision is made to ensure debt is repaid.

Each year an updated MRP statement will be presented.

Appendix D - Fiscal Indicators

1. Net debt costs should not exceed 15% of net revenue spending – budgeted figures

	Forecast Financing costs £'000	Less: Investment Income £'000	Net Financing costs £'000	Total Revenue Spending £'000	%
2014-15	121,070	2,700	118,370	940,313	12.6
2015-16	124,627	2,700	121,927	916,479	13.3
2016-17	120,803	3,200	117,603	911,050	12.9

2. Management and Operating Overheads should not exceed 10% of net revenue spending

	Management & Operating Overheads £'000	Net Revenue Spending £'000	%
2014-15 (revised)	92,122	940,313	9.8
2015-16 (revised)	83,674	916,479	9.1
2016-17	78,080	911,050	8.6

3. Corporate & Democratic Core (Strategic Costs) should not exceed 1.5% of net revenue spending

	Corporate & Democratic Core £'000	Net Revenue Spending £'000	%
2014-15 (revised)	9,091	940,313	1.0
2015-16 (revised)	8,265	916,479	0.9
2016-17	8,072	911,050	0.9

4. Budgeted income from commercial activities should make a contribution of at least 5% to overheads

	Net income from Commercial Activities £'000	Overheads £'000	Contribution achieved %
2014-15 (revised)	7,691	92,122	8.3
2015-16 (revised)	6,700	83,674	8.0
2016-17	8,700	78,080	11.1

Note: Currently, net income from commercial activities is the surplus from Commercial Services only.

<u>Other Financial Management Indicators</u>

5. General Reserve as a percentage of Gross Expenditure (exc. Schools)

	General Reserve £'000	Gross Expenditure (exc. Schools) £'000	%
2014-15 (revised)	31,725	1,442,154	2.2
2015-16	37,213	1,468,811	2.5
2016-17	37,213	1,501,191	2.5

6. Local Funding (External Income exc. Schools plus Local Taxation) as a percentage of Gross Expenditure (excluding Schools)

	Service Income (exc. Schools) + Council Tax £'000	Gross Expenditure (exc. Schools) £'000	%
2014-15 (revised)	780,876	1,442,154	54.1
2015-16	811,274	1,468,811	55.2
2016-17	895,552	1,501,191	59.7

Appendix E - Corporate Risk Register
Summary Risk Profile
As at 7th March 2016

Low = 1-6	Medium = 8-15	High =16-25

Risk No.*	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	9	9
CRR 2(a)	Safeguarding – protecting vulnerable children	16	9
CRR 2(b)	Safeguarding – protecting vulnerable adults	16	9
CRR 3	Access to resources to aid economic growth and enabling infrastructure	12	8
CRR 4	Civil Contingencies and Resilience	12	8
CRR 9	Health & Social Care Integration (inc. Better Care Fund)	16	9
CRR 10(a)	Management of Adult Social Care Demand	20	12
CRR 10(b)	Management of Demand – Early Help and Specialist Children's Services	20	12
CRR 12	Welfare Reform changes	12	9
CRR 17	Future financial and operating environment for local government	20	12
CRR 22	Implications of increased numbers of Unaccompanied Asylum Seeking Children (UASC)	20	12
CRR 23	Managing and embedding sustainable change	12	6
CRR 24	Delivery of 2016/17 Savings	12	2

*Each risk is allocated a unique code, which is retained even if a risk is transferred off the Corporate Register. Therefore there will be some 'gaps' between risk IDs.

NB: Current & Target risk ratings: The 'current' risk rating refers to the current level of risk taking into account any mitigating controls already in place. The 'target residual' rating represents what is deemed to be a realistic level of risk to be achieved once any additional actions have been put in place. On some occasions the aim will be to contain risk at current level.

Risk ID	CRR1	Risk Title	Data and Information Management		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is reliant on vast amounts of good quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act and Government's Code of Connection (CoCo) to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and "cyber" security have become complex and important.	Information security incidents resulting in loss of personal data or breach of privacy/confidentiality. Data Subject complaint upheld by Information Commissioners Office (ICO). Failure to achieve either annual PSN or NHS Information Governance certification.	ICO sanction (e.g. undertaking, assessment, improvement, enforcement or monetary penalty notice) issued against the Authority. Reputational damage. Damages claims. Cost of remediation. Access to PSN and/or NHS connected services revoked or restricted resulting in significant interruption to services.	On behalf of CMT: Geoff Wild, Director Governance & Law Rebecca Spore, Director Infrastructure **Responsible Cabinet Member(s):** Gary Cooke, Corporate & Democratic Services	Possible (3) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Risk ID	CRR2(a)	Risk Title	Safeguarding – protecting vulnerable children		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable children. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism, with a focus on the need to safeguard children at risk of being drawn into terrorism.	Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable child.	On behalf of CMT: Andrew Ireland, Corporate Director Social Care Health & Wellbeing (SCHW) **Responsible Cabinet Member(s):** Peter Oakford Specialist Children's Services Mike Hill (Lead Member for Prevent)	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	**CRR2(b)**	**Risk Title**	**Safeguarding – protecting vulnerable adults**		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism.	Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable adult.	On behalf of CMT: Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member:** Graham Gibbens, Adult Social Care & Public Health Mike Hill (Lead Member for Prevent)	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	CRR3	Risk Title	Access to resources to aid economic growth and enabling infrastructure		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council seeks access to resources to develop the enabling infrastructure for economic growth and regeneration. However, in parts of Kent, there is a significant gap between the costs of the infrastructure required to support growth and the Council's ability to secure sufficient funds through s106 contributions, Community Infrastructure Levy and other growth levers to pay for it. This is especially the case in the east of the county. At the same time, Government funding for infrastructure (for example via the Local Growth Fund) is limited and competitive and increasingly linked with the delivery of housing and employment outputs. Several local transport schemes proposed will require preparatory work without knowledge of funding allocation in order to deliver on time.	Inability to secure sufficient contributions from development to support growth. Failure to attract sufficient funding via the Local Growth Fund and other public funds to both support the cost of infrastructure and aid economic growth and regeneration. Insufficient return on investment from Regional Growth Fund schemes or significant level of default on loans.	Key opportunities for growth missed. The Council finds it increasingly difficult to fund KCC services across Kent (e.g. schools) and deal with the impact of growth on communities. Kent becomes a less attractive location for inward investment and business. Our ability to deliver an enabling infrastructure becomes constrained. Reputational risk.	Barbara Cooper, Corporate Director Growth, Environment and Transport **Responsible Cabinet Member(s):** Mark Dance, Economic Development Matthew Balfour, Environment & Transport	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Risk ID	CRR4	Risk Title	Civil Contingencies and Resilience		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council, along with other Category 1 Responders in the County, has a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies. This includes the Counter-terrorism and Security Act 2015, which contains a duty to have due regard to the need to prevent people from being drawn into terrorism. The Director of Public Health has a legal duty to gain assurance from the National Health Service and Public Health England that plans are in place to mitigate risks to the health of the public including outbreaks of communicable diseases e.g. Pandemic Influenza. Ensuring that the Council works effectively with partners to respond to, and recover from, emergencies and service interruption is becoming increasingly important in light of recent national and international security threats and severe weather incidents.	Failure to deliver suitable planning measures, respond to and manage these events when they occur. Critical services are unprepared or have ineffective emergency and business continuity plans and associated activities.	Potential increased harm or loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage. Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	On behalf of CMT Barbara Cooper, Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Mike Hill, Community Services	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Risk ID	CRR9	Risk Title	Health & Social Care Integration (inc. Better Care Fund)		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The health & social care 'system' is under extreme pressure to cope with increasing levels of demand and financial constraints. Consequently, there is an urgent need to develop integrated health & social care services to meet these challenges. The integration agenda presents local authorities with both opportunities and risks.	Pressures within the health sector have repercussions for social care. Insufficient Better Care Fund monies to support preventative services, which means plans to reduce hospital admissions are destabilised. Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact.	Additional budget pressures. Gaps between services or in some instances duplication of services or inefficient use of the available joint resources.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Roger Gough, Education & Health Reform Graham Gibbens, Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	CRR10(a)	Risk Title	Management of Adult Social Care Demand		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Adult social care services across the country are facing growing pressures. Overall demand for adult social care services in Kent continues to increase due to factors such as increasing numbers of young adults with long-term complex care needs and Ordinary Residence issues. This is all to be managed against a backdrop of reductions in Government funding, implications arising from the implementation of the Care Act, a recent Supreme Court ruling that may lead to increases in Deprivation of Liberty Assessments and longer term demographic pressures.	Council is unable to manage and resource to future demand and its services consequently do not meet future statutory obligations and/or customer expectations.	Customer dissatisfaction with service provision. Increased and unplanned pressure on resources. Decline in performance. Legal challenge resulting in adverse reputational damage to the Council. Financial pressures on other council services.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Risk ID	CRR10(b)	Risk Title	Management of Demand – Early Help and Preventative Services and Specialist Children's Services		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Local Authorities continue to face increasing demand for specialist children's services due to a variety of factors, including consequences of highly publicised child protection incidents and serious case reviews, and policy/legislative changes. At a local level KCC is faced with additional demand challenges such as those associated with significant numbers of Unaccompanied Asylum Seeking Children (UASC). There are also particular 'pressure points' in several districts. These challenges need to be met as early help and preventative services and specialist children's services face increasingly difficult financial circumstances and operational challenges such as recruitment and retention of permanent qualified social workers.	High volumes of work flow into early help and preventative services and specialist children's services leading to unsustainable pressure being exerted on them.	Children's services performance declines as demands become unmanageable. Failure to deliver statutory obligations and duties or achieve social value. Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources. Ultimately an impact on outcomes for children, young people and their families.	Andrew Ireland, Corporate Director SCHW Patrick Leeson, Corporate Director EYPS **Responsible Cabinet Member(s):** Peter Oakford, Specialist Children's Services	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Risk ID	CRR 12	Risk Title	Welfare Reform changes		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Welfare Reform Act 2012 put into law many of the proposals set out in the 2010 white paper *Universal Credit: Welfare that Works*. It aims to bring about a major overhaul of the benefits system and the transference of significant centralised responsibilities to local authorities. KCC needs to be prepared to manage the uncertain affects and outcomes that the changes may have on the people of Kent. This now includes assessment of potential impacts of the Welfare Reform & Work Bill.	The impact of the reforms in regions outside of Kent could trigger the influx of significant numbers of 'Welfare' dependent peoples to Kent. Failure to plan appropriately to deal with potential consequences.	An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. Additional pressure on KCC services e.g. demand for adults and children's social care. Increasing deprivation leads to increase in social unrest and criminal activity.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Risk ID	CRR 17	Risk Title	Future financial and operating environment for Local Government		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner (s)**	**Current Likelihood**	**Current Impact**
The operating environment for local government will continue to change during the coming years, presenting both opportunities and risks for the Council and its partners / service providers. For example, the Comprehensive Spending Review and associated Local Government settlement is expected to require a further 30% of savings in real terms during the next 4 years, which could threaten delivery of local services across the county, while the current provisions of the Govt's Cities and Devolution Bill could have wide-ranging implications, including the potential for significant Local Government reorganisation. Business rate retention may present opportunities for the Council. A National Living Wage is due to be introduced from April 2016 and Govt has developed proposals to combine Local Authority pension funds. The EU referendum in June 2016 adds additional uncertainty, with potentially significant impacts.	Additional spending demands and continued public sector austerity measures threaten financial sustainability of KCC, its partners and service providers. Increase in the National Living Wage could severely impact on local markets. Quality of KCC commissioned / delivered services suffers as financial situation continues to worsen. Failure to capitalise on opportunities presented by the Government's devolution agenda.	Unsustainable financial situation. Potential for partner or provider failure – including sufficiency gaps in provision. Reduction in resident satisfaction and reputational damage.	All Corporate Directors **Responsible Cabinet Member (s):** All Cabinet Members	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Risk ID	CRR22	Risk Title	Implications of increased numbers of Unaccompanied Asylum seeking children (UASC)		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Since May 2015 there has been an unprecedented increase in the numbers of UASC arriving in Kent, which places increased pressure on all aspects of specialist children's services delivery. This issue is the source of a number of risks.	There is a risk that there will be insufficient accommodation, social work assessment capacity and support for UASC. Shortfall in funding the full cost associated with fulfilling the Council's statutory duties. Risk that other Local Authorities do not voluntarily accept UASC that arrive in Kent in sufficient numbers.	Serious impact on vulnerable young people. The Council would be unable to fulfil its statutory duties effectively. Additional budget pressures on the Authority if UASC costs are not fully funded by Govt.	Andrew Ireland, Corporate Director, SCHW	Very Likely (5)	Serious (4)
			Responsible Cabinet Member(s):	**Target Residual Likelihood**	**Target Residual Impact**
			Peter Oakford, Specialist Children's Services	Possible (3)	Serious (4)

Risk ID	CRR23	Risk Title	Managing and embedding sustainable change		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Authority is developing a strategic commissioning approach, as it looks to transform and respond to the challenging local government environment. This includes exploring alternative service delivery models as well as embedding commissioning principles for 'internally commissioned' services. This involves the development of appropriate 'client-side' arrangements.	Insufficient programme control on key change activity. Insufficient management capacity and / or capability in key skill areas to support sustained change. 'Client-side' commissioner arrangements not developed in time to drive effective relationships with, and performance management of, suppliers.	Potential to fall short of achieving financial and non-financial benefits if changes introduced are not fully embedded. Disproportionate effort could be spent on areas of change that do not provide the greatest return on investment. Potential implications for staff wellbeing, morale and engagement.	All Corporate Directors **Responsible Cabinet Member:** Paul Carter, Leader of the Council	Likely (4) **Target Residual Likelihood** Unlikely (2)	Significant (3) **Target Residual Impact** Significant (3)

Risk ID	CRR24	Risk Title	Delivery of 2016/17 Savings		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."	The required savings from key programmes or efficiency initiatives are not achieved.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Potential adverse impact on whole-council transformation plans. Reputational damage to the council.	On behalf of CMT: Andy Wood, Corporate Director Finance & Procurement **Responsible Cabinet Member:** John Simmonds, Finance & Procurement	Possible (3) **Target Residual Likelihood** Very unlikely (1)	Serious (4) **Target Residual Impact** Moderate (2)

Appendix F
Assessment of Level of Reserves

1 Introduction

Each year, reviewing the level of reserves the Council holds is an important part of the budgetary process. The review must be balanced and reasonable, factoring in the current financial standing of the Council, the funding outlook into the medium term and beyond, and most importantly, the financial risk environment we are operating in.

2 Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital receipts
- The capacity to manage in-year demand led pressures
- Ability to activate contingency plans if planned savings cannot be delivered
- Risks inherent in any new partnerships
- Financial standing of the authority (level of borrowing, debt outstanding etc.)
- The authority's record of budget management and ability to manage in year budget pressures
- Virement and year-end procedures in relation to under and overspends
- The general financial climate
- The adequacy of insurance arrangements

It should be made clear that the assessment of the adequacy of reserves is very subjective. There is no 'right' answer as to the precise level of reserves to be held. There is also no formula approach to calculating the correct level; it is a matter of judgement, responsibility for which lies with the S151 officer.

3 The Spending Review and Draft Local Government Finance Settlement

The Spending Review was published on 25 November 2015. As expected, the level of local authority reserves featured in the Chancellor's proposed solution to eliminate the deficit, although he recognised that local government should have autonomy in deciding how to spend its reserves. He did however say that '*Councils increased their reserves by nearly £10 billion over the last Parliament. We'll encourage them to draw on these reserves as they undertake reforms*.'

Interestingly, the Office for Budget Responsibility's assumptions about Councils and their reserves is that Councils will ADD £2.2bn to reserves over the Spending review period.

The draft Local Government Finance Settlement was published on 17th December 2015 and confirmed by Parliament on 10th February 2016. The details of this are reported elsewhere in this document. The impact on our reserves is significant, both in terms of the level of reserves we will have to draw-down in order to balance the 2016-17 budget, and also in terms of the increased financial risk we now face, particularly in the next two years.

4 Comparison with other County Councils

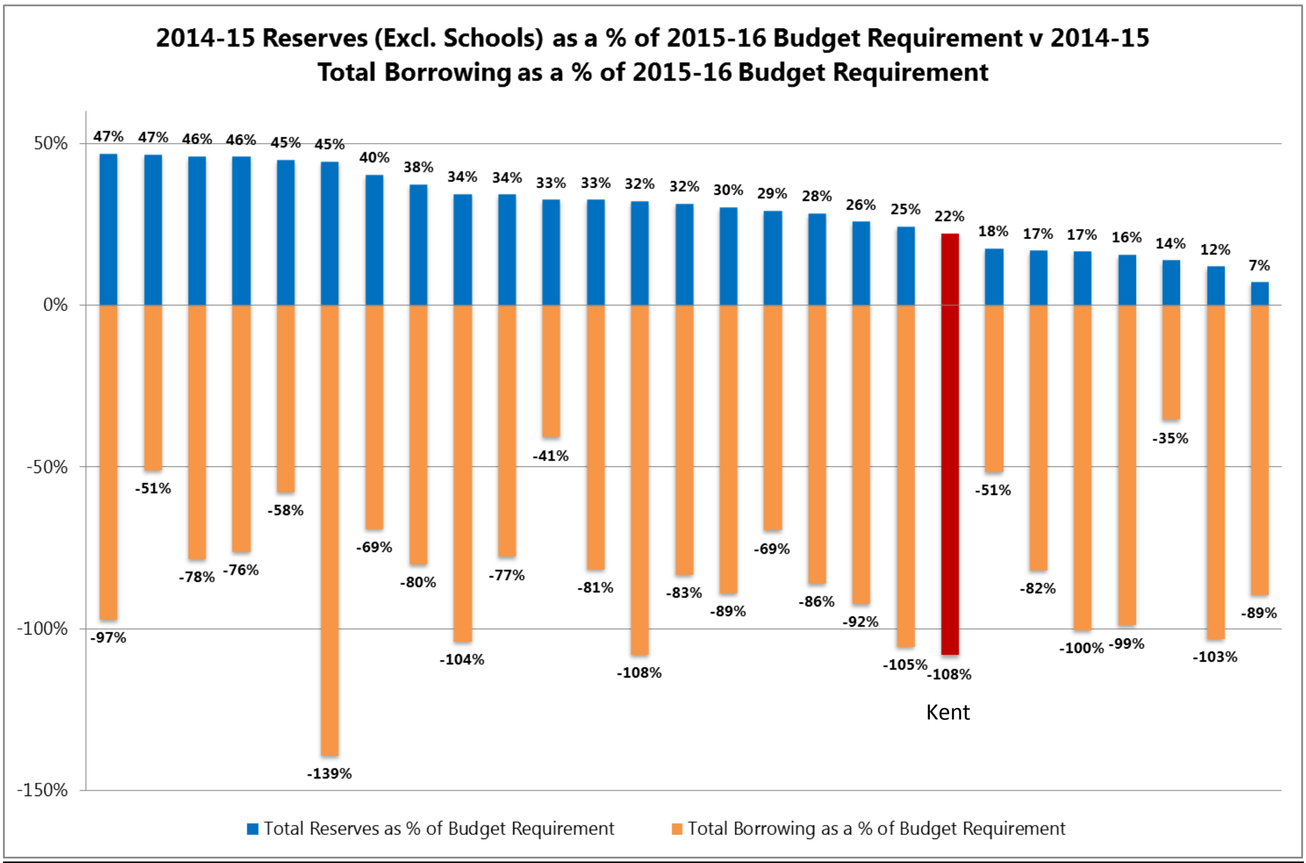
There continues to be national scrutiny of Councils' reserves. As funding for local government continues to be cut, Councils are, perhaps naturally, protecting themselves from the possibility and impact of these cuts continuing until the end of the decade at least. The result is that nationally reserves have increased rather than, as might be expected, reduced. The resulting criticism levelled at Councils is that they, collectively, are holding too much money in reserve while at the same time they are cutting services. This is not a criticism that can be directed at Kent.

Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to in Section 2 above.

A graphical analysis of the 2014-15 reserves is shown below. Kent is ranked 20th out of 27 County Councils in terms of the percentage of reserves held

The range of reserves held as a percentage of budget is vast; the lowest authority at 7%, up to the highest at 47%. Kent's figure is 22%.

It is also worth looking at reserves alongside borrowing, as borrowing can be used to protect reserves, or reserves used to reduce borrowing. The graph shows that Kent is ranked 25th out of the 27 Counties. There is little that can be done in the short term to affect this. We have though capped our borrowing costs at 15% of our net revenue budget for the past four years (and have remained under that cap), and have reduced our overall borrowing during that time.



5 Analysis of Risk

Listed in Section 2 of this appendix are the factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a 'direction of travel' indicator since last year's budget was set. An <u>upward</u> direction means an <u>improved</u> position for this Council (i.e. the risk is less than it was last year).

- Assumptions regarding inflation and interest rates:
  Inflation has been steadily reducing and is now below the Government target of 2.0%, and at times has been negative. Interest rates are largely determined by base rate, which has been at 0.5% now since March 2009, and is now widely forecast to remain at this rate until at least summer 2016. There are suggestions that the rate will rise in the autumn of 2016, but it's likely to be a very small increase, if any, during the 2016-17 financial year. The lower the actual and expected rate of inflation, the better it is for our budget in net terms.

- Estimates of the level and timing of capital receipts:
  Our reliance on capital receipts is significant, in order to fund our capital programme. Delivery against target is encouraging, but remains challenging.

- The capacity to manage in-year demand led pressures:
  As each year passes, with reduced funding and increased demand, our discretionary spend that can be 'turned-off' at short notice diminishes.

- ⇩ Ability to activate contingency plans if planned savings cannot be delivered: Similar to the above risk; we do still have some ‘safety valves’ that can be turned off in an emergency, but these are reducing and they may be very unpopular and potentially expensive in the longer term.

- ⇔ Risks inherent in any new partnerships:
  The major new partnership with Health (the Better Care Fund) will be in its second year. The financial difficulties in the health sector mean we have to be vigilant in managing the usage of the BCF. If used correctly, it is an opportunity to create significant efficiencies as well as better outcomes for individuals.

- ⇔ Financial standing of the authority (level of borrowing, debt outstanding etc.):
  The proposed use of reserves to support the 2016-17 revenue budget does reduce our protection against a major unforeseen financial event, but the general financial health of the Council remains fairly static.

- ⇔ The Authority’s record of budget management and ability to manage in year budget pressures; this continues to be excellent with fifteen consecutive years of underspend up to 2014-15, with every expectation that 2015-16 will be the sixteenth year.

- ⇔ Virement and year-end procedures in relation to under and overspends.

- ⇩ The general financial climate.
  The Spending Review has given local authorities greater scope to raise local taxes, and will create a larger Better Care Fund targeted specifically at adult social care. But the demographic changes and impact of the National Living Wage will place significant additional cost on upper-tier Authorities. Further real-terms reductions will be needed in order to balance this Council’s budgets over the medium-term plan

- ⇔ The adequacy of insurance arrangements.
  We have renewed our insurance policies as of January 2016, insuring the same levels of risk as previously, albeit at a higher premium. Consideration was given to a greater level of self-insurance, but this was deemed too risky given our limited level of general and insurance reserves

Of the ten factors, one shows an improvement from twelve months ago, six are relatively unchanged, and three have deteriorated. No weighting has been applied to the ten factors, and the general financial risk to the Council remains fairly static, albeit slightly increased, compared with a year ago.

However, none of the above adequately reflects the risk attached to the approved savings plans. The budget for 2016-17 has £35m-£40m of savings that are not directly in our control, such as reducing demand for adult services, reducing the number and cost of looked-after children, and procurement savings. This brings additional risk and this has increased considerably in the past three years. Only our general reserves of £37m are available to offset any in-year overspends, and of course can only be used once.

The overall conclusion is that we have a slightly increased risk profile since the 2015-16 budget, and will have a slightly lower level of earmarked reserves.

6 The detail of our Reserves

The Statement of Accounts that we produce each year details our **Earmarked Reserves** and explains why we hold each of them. There will continue to be draw-down and contributions to these reserves in line with the patterns of expenditure anticipated when the reserves were created. There is no proposal within the budget to change this strategy.

A review of the earmarked reserves, in light of the local government finance settlement, has resulted in a proposal within the 2016-17 budget to draw-down around £5m of earmarked reserves. These reserves are either no longer needed (eg Directorate specific reserves) or were created for exactly this situation.

7 Role of the Section 151 Officer

The duties of the Council's Section 151 Officer include the requirement 'to ensure that the Council maintains an adequate level of reserves, when considered alongside the risks the Council faces and the general economic outlook'. The reserves that this Council will hold as at 1 April 2016 are, in the opinion of the Section 151 Officer, adequate.

Appendix G
Glossary of Abbreviations

A to Z of Services	Presentation of KCC's annual budget according to services provided
AME	Annually Managed Expenditure - Central Government measure for money spent in areas outside DEL
Autumn Budget Statement	Chancellor’s Annual midyear update to national budget
Bail In	Arrangement whereby regulatory authorities keep a failing bank open for essential business and pass the cost of that failure onto the bank’s investors principally bondholders and unsecured depositors.
BoE	Bank of England
BCF	Better Care Fund
BSF	Building Schools for the Future
Budget	Annual spending plan for 2016-17
Business Rates (NNDR)	Local property tax levied on businesses and redistributed by the Government.
Capital Budget	Investment programme on infrastructure, property & IT improvements
CCG	Clinical Commissioning Group
CCLA	Church Charities Local Authorities – an investment portfolio
CFR	Capital Financing Requirement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance & Accountancy
CLG	Government Department for Communities & Local Government
CMT	Corporate Management Team of the Council attended by Corporate Directors
CoCo	Code of Connection
CPI	Consumer Price Index - Government measure of inflation
DBS	Disclosure and Barring Service (formerly Criminal Records Bureau (CRB) and Independent Safeguarding Authority (ISA))
DDA	Disability Discrimination Act
DEFRA	Government Department for Environment, Food & Rural Affairs

DEL	Departmental Expenditure Limits - the amount that government departments have been allocated to spend
DfE	Government Department for Education
DfT	Government Department for Transport
DoH	Government Department of Health
DMO	Debt Management Office
DSG	Dedicated Schools Grant - government grant 100% funded from national taxation to fund schools
DWP	Government Department for Work and Pensions
EFA	Education Funding Agency
EU	European Union
E&YP	Education and Young People's Services Directorate
ERP	Enterprise Resource Planning; computer systems
ESG	Education Services Grant –grant provided to local authorities on a national per pupil basis to provide central services for maintained schools
Facing the Challenge	The Council's strategic vision document
Fiscal Indicators	Measures of the Council's financial health
FTE	Full Time Equivalent - standard used to assess equivalent number of full time and part time employees
FYE	Impact in a full financial year of an initiative that has been implemented part way through the year
GAC	Governance & Audit Committee
Gateway	Customer contact points for all local councils' services
GDP	Gross Domestic Product - Government measure for the overall health of the economy
GET	Growth, Environment and Transport Directorate
GLA	Greater London Authority
GP	General Practitioner
GUF	Guaranteed Unit of Funding - mechanism used to determine DSG for each local authority
HO	Home Office
HWRC	Household Waste Recycling Centre
ICO	Information Commissioners Office
ICT	Information Communication Technology
KCC	Kent County Council

KCS	Kent Commercial Services
KDAAT	Kent Drug & Alcohol Action Team
KSAS	Kent Support and Assistance Services
LAC	Looked After Children - children placed into care by the local authority
LAMS	Local Authority Mortgage Scheme
LATCo	Local Authority Trading Company - a company created and either wholly or partially owned by a local authority to provide existing or new services through a trading model.
LD	Learning Disability
LDF	Local Development Framework
LEA	Local Education Authority
LEP	Local Enterprise Partnership - regional grouping of local authorities to promote economic prosperity
LGA	Local Government Association
LOBO	Lender Option Borrower Option – lender has the option to call in loan at pre-determined future date
LSSG	Local Service Support Grant – grant introduced in 2011 to summarise a number of small grants
MFG	Minimum Funding Guarantee - guaranteed level of funding for individual schools
MRP	Minimum Revenue Provision - prudent amount needed to cover the revenue consequences of capital investment
MTFP	Medium Term Financial Plan
NHS	National Health Service
NNDR	National Non Domestic Rates
NQT	Newly Qualified Teacher
OBR	Office for Budget Responsibility - independent body advising the chancellor on economic forecasts
OfSTED	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PCT	Primary Care Trust
PFI	Private Finance Initiative
PROW	Public Right of Way
Prudential Indicators	Set within the Prudential Code which is a code of practice to support local authorities in taking decisions around their programmes of capital

	investment in fixed assets
PSN	Public Sector Network
PWLB	Public Works Loan Board
Repo	Reverse Purchase Agreements – a form of investment
Revenue Budget	Annual recurring expenditure on staff, buildings, contracts, supplies, etc.
RPI	Retail Price Index - alternative measure of inflation
RSG	Revenue Support Grant - grant to local government funded from national taxation and share of business rates
S&CS	Strategic and Corporate Services Directorate
SCH&W	Social Care, Health and Wellbeing Directorate
Schools' Funding Forum	Statutory body representing views of schools in relation to a number of financial matters
SDLT	Stamp Duty Land Tax
SEN	Special Educational Needs
SEND	Special Educational Need & Disability
SFA	Skills Funding Agency
SIP	Supporting Independence Programme
SORP	Statement of Required Practice - KCC risk management tool
SR2010	Spending Review 2010
TMAG	Treasury Management Advisory Group
TCP	Total Contribution Pay - performance reward payments to staff
TIGER	Thames Gateway Innovation, Growth and Enterprise programme - offering direct financial support to business in North Kent and Thurrock
TM	Treasury Management
TME	Totally Managed Expenditure – national measure for the total amount that the government spends on public services
UASC	Unaccompanied Asylum Seeking Children
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
VAT	Value Added Tax

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Medium Term Financial Plan

2016-19

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